Austria Sch22	Indonesia ... Rp3100	Portugal Esc100
Bahrain ... Din0.650	Israel NS3.50	S Arabia Rls6.00
Belgium BFr48	Italy L1600	Singapore ... S$4.10
Canada ...... C$1.00	Japan Y600	Spain Pta125
Cyprus .... C£0.75	Jordan Fils500	Sri Lanka Rup30
Denmark ... DKr9.00	Kuwait ...... Fils 500	Sweden SKr8.00
Egypt .... E£2.25	Lebanon .. $L125.00	Switzerland. SFr2.20
Finland Fmk7.00	Luxembourg .. LFr48	Taiwan .... NT$65
France FFr6.50	Malaysia ... Rm4.25	Thailand Bht50
Germany ... DM2.20	Mexico Pes300	Tunisia Din0.800
Greece Dr100	Morocco Dh6.00	Turkey L500
Hong Kong... HK$12	Netherlands... Fl3.00	UAE Dh6.50
India Rup15	Norway Nkr8.00	USA $1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

ø No. 30,411 — Thursday December 10 1987 — D 8523 A

S. Korea: Unity is back on the agenda, Page 20

World News | Business Summary

France 'may sell more warplanes to Baghdad'

France, which has been trying to mend relations with Iran, was reported to be planning to supply Iraq with 12 more Mirage F1 fighter aircraft and to help build a fighter repair and maintenance facility in Iraq.

France has sold 137 Mirage F1 fighters to Iraq since 1977 and Baghdad has been trying for some time to buy additional jets to replace those destroyed or damaged in its war with Iran. **Page 20**

Iran detains ship

Iranian gunboats in the Gulf area detained a foreign cargo ship suspected of carrying goods for Iraq and led it to an Iranian port for further inspection, Teheran said. The ship's name and nationality were not revealed.

Argentine shut-down

A 24-hour strike in Argentina paralysed public transport and forced the closure of most factories in the industrial belt around Buenos Aires. **Page 4**

Pilots call strike

Air France pilots called a four-day strike from today in protest against the airline's refusal to discuss flight deck manning on a new short-haul airliner. **Page 3**

Peru airliner crashes

A chartered military aircraft with 50 people on board, including members of Peru's top soccer team, crashed on a beach near Lima. There was at least one survivor, the navy said.

Coup leader captured

Philippines Government troops captured Col Gregorio "Gringo" Honasan, leader of a military revolt that nearly toppled President Corazon Aquino in August, in a Manila suburb. **Page 6**

Ethiopia accused

Sudan said its air force had bombed a rebel-held town 600km south of Khartoum, inflicting heavy casualties, and accused Ethiopia of helping the insurgents by providing army helicopters to ferry away the wounded.

Indian satellites plan

India said it would use Soviet, French and US help to launch three out of four satellites in the next two years.

Israelis kill protestor

Israeli troops shot dead at least one Palestinian and wounded 15 others when they opened fire on demonstrators who threw a petrol bomb at an army patrol in the occupied Gaza Strip. **Gaza riots, Page 6**

Gun in plane wreck

US Federal agents have discovered a gun in the wreckage of the aircraft which crashed in California on Monday, killing 43 people.

Zambian crackdown

Zambian security forces destroyed market stalls and arrested about 1,000 people in Lusaka in the second crackdown on black marketeers in a week.

Brazilian complaint

Brazil complained to the 95-nation Gatt trade body that a US plan to impose duties on its computer products was disrupting trade. **Spending failure, Page 4**

Police storm bank

Riot police stormed the Bank of France in a raid which freed two directors held by about 1,000 strikers occupying the building. **Page 3**

'Stop aid' plea

Costa Rican President and 1987 Nobel Peace Prize laureate Oscar Arias Sanchez urged the US to end all aid, both military and civilian, to Contra rebels in Nicaragua. **Page 4**

Swiss President

The Swiss Parliament elected Finance Minister Otto Stich to the presidency and voted a Social Democrat and a leader of the right-wing People's Party into the seven-member Cabinet.

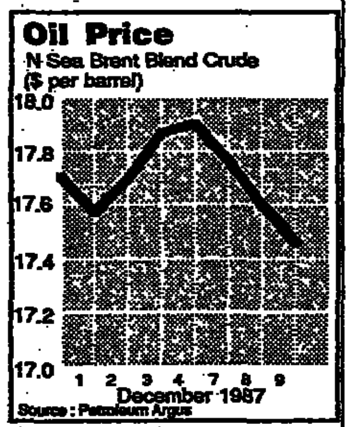
SAS offers £130m for 23% stake in BCal

Scandinavian Airlines System plans to pay £130m ($234m) for an initial 23.5 per cent voting stake in British Caledonian Group, the UK airline, under an agreed recapitalisation package.

BCal unanimously recommended the SAS partial offer in preference to a rival full bid from British Airways, but recommended shareholders delay acceptance until SAS receives approval from the UK Civil Aviation Authority. **Page 21**

UNILEVER, Anglo-Dutch food and detergents group, is to purchase Celestial Seasonings, US herbal teas producer. **Page 21**

OIL PRICES weakened sharply as the meeting of the Organisation of Petroleum Exporting Countries got off to a bad start,



with Iran threatening to opt out of any pact concluded by other members on production quotas. **Page 28**

WALL STREET: The Dow Jones industrial average closed up 34.15 at 1,902.52. **Page 40**

TOKYO: Profit-taking in most sectors offset an early advance leaving the Nikkei stock average 62.64 lower at 22,885.70. **Page 40**

LONDON: Gaining confidence as New York advanced, the UK stock market moved higher after hesitancy about the lower dollar. The FT-SE index rose 14.9 to 1,639.3. **Page 36**

DOLLAR closed in New York at DM1.3585; FFr1.3061; SFr1.8695; Y1.6620. It closed in London at DM1.6640 (DM1.6680); FFr5.6375 (FFr5.6525); SFr1.3605 (SFr1.3640); and Y132.40 (Y132.70). **Page 29**

STERLING closed in New York at $1.8045. It closed in London at $1.8025 ($1.7965); DM2.9975 (unchanged); FFr10.1625 (FFr10.1550); SFr2.4525 (SFr2.45); and Y238.75 (Y238.50). **Page 29**

PUMA, West German sports shoe and clothing company, hopes to return to break even next year after reducing its losses in 1987. **Page 21**

GENERAL ELECTRIC and **International Business Machines**, US technology groups, have signed a semiconductor technology development agreement. **Page 21**

DAIMLER-BENZ, diversified West German motor group, said it again expects to report a "satisfactory result" for 1987, in spite of the uncertainty on world financial markets. **Page 22**

SIEMENS, West German electrical and electronics group, is discussing possible co-operation in the fast-developing car electronics sector with Allied Signal, leading US company in the field. **Page 22**

PHILIPS, Dutch electrical group, has postponed plans to raise about $250m by publicly floating 20 per cent of Polygram, its music production. **Page 22**

MOET-HENNESSY, French champagne and cognac group, has sold control of its troubled US horticulture business to Shaklee Corporation, leading US mail order company. **Page 22**

FLUOR, California-based plant engineering and construction group, has reported its first profit in three years. **Page 21**

PETROLEUM CORPORATION, New Zealand oil company currently being privatised, lifted net profits by 7.5 per cent to NZ$45.7m (US$29.2m) in the six months to September. **Page 23**

Not cricket, say England, as umpire strikes back

FINANCIAL TIMES REPORTER

STALWART cricket devotees everywhere were in uproar yesterday over a dispute which threatened England's cricket tour of Pakistan.

The US-Soviet summit in Washington was relegated to a side-show as Mike Gatting, England's usually phlegmatic cricket captain was apparently accused by the Pakistani umpire of cheating.

For the non-cognoscenti, the umpire is the referee. He wears a white coat and does not come from a neutral country because the notion of anyone cheating at England's national game is unthinkable.

By the time riot police had surrounded the ground yesterday the original cause of the row appeared to have been forgotten.

Mr Nicholas Barrington, Britain's Ambassador to Pakistan, was urged sang-froid on English officials who travelled to Lahore for a meeting with Lt-Gen Safdar Butt, president of the Pakistan Cricket Board, in a bid to prevent the tour being cancelled. Cricket is also taken very seriously in Pakistan, a former British colony, which is why a general is in charge of the game.

Normally reserved English diplomats told newsmen that the consequences for Anglo-Pakistani relations if the tour was called off would be "diabolical, unthinkable."

Old-timers said the affair recalled the Bodyline controversy of the 1930s when England's tactic of hurling the leather cricket ball at speeds of over 100 kilometres per hour at the bodies of Australian batsmen provoked such a diplomatic uproar that it was feared Australia might leave the Commonwealth.

There was no play yesterday as the umpire, Mr Shakkor Rana, refused to officiate. The current dispute revolves round an incident on Tuesday when Mr Rana felt that Gatting's alteration of the fielding positions was "unfair."

This was not the first disputed decision by Pakistani umpires which the England cricketers feel caused them to be defeated in the first Test (international) match of the series.

Cricket fans watching the row on television suggested the affair might make a a Christmas pantomime, provisionally entitled The Umpire Strikes Back.

"You started it," the England camp was heard to chorus. "Oh no, we didn't," replied the Pakistanis.

The participants were egged on from the sidelines. Tom Graveney, a former England player and now a TV commentator, said that England had been cheating for 37 years. Mr Anthony Beaumont-Dark, a British Parliamentarian, said the team should be brought home "before one of our cricketers gets murdered."

Reagan, Gorbachev make progress on Gulf and Afghanistan

BY ROBERT MAUTHNER AND STEWART FLEMING IN WASHINGTON

PRESIDENT REAGAN and Mr Mikhail Gorbachev, the Soviet leader, appeared to have made good progress in their summit talks yesterday on a number of important subjects ranging from arms control to Afghanistan and the Iran/Iraq conflict.

On the second day of their meeting, the two leaders who, on Tuesday had discussed relations between the US and the Soviet Union in general terms, dealt in more detail with specific issues.

Describing the morning's discussions as "very productive" Mr Marlin Fitzwater, the White House Spokesman, said "this was a day of heavy lifting".

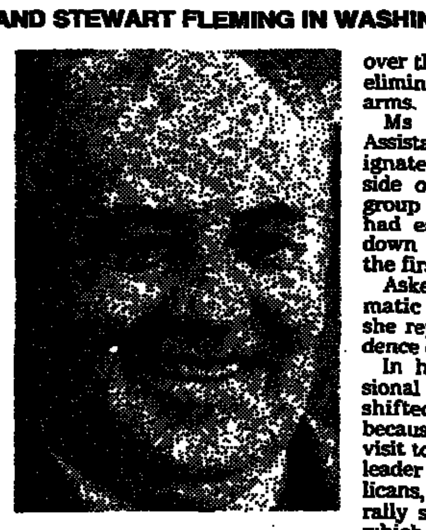
Asked to comment on the hint from Mr Gorbachev that there might be new Soviet plans for an Afghanistan withdrawal, Mr Gennadi Gerasimov, said "the Afghanistan question was discussed and a time table was also discussed".

Later in the day, the White House confirmed that Mr Reagan would make a televised report to the nation at 9 pm (Washington time) today.

It was also disclosed that Mr George Shultz, the Secretary of State, and Mr Eduard Shevardnadze, his Soviet counterpart, were about to sign three agreements, including one authorising a non-stop air service between New York and Moscow using Pan Am and Aeroflot jetliners.

Mr Gennadi Gerasimov, the Soviet Foreign Ministry spokesman, agreed that Mr Reagan and Mr Gorbachev had had a very useful exchange of views.

Earlier Mr Gorbachev, on his



Mikhail Gorbachev: rallying support

arrival at the White House after talks with Congress leaders at the Soviet Embassy, said: "The fact that we are ready to withdraw from Afghanistan is something that I have said some time ago. So what we are going to discuss will be more specific".

The Soviet leader had been pressed by some of the Congressional leaders to move decisively to help bring an end to the war in Afghanistan.

Senator Robert Byrd, the Democratic majority leader, who was a member of the delegation, said he had told Mr Gorbachev bluntly that the Soviet position on Afghanistan would influence the outcome of the Senate debate over the ratification of the treaty eliminating intermediate nuclear arms.

Ms Rozanne Ridgeway, the Assistant Secretary of State, designated to head the American side of the US/Soviet working group discussing regional issues, had earlier sought to dampen down the euphoria surrounded the first day of the summit.

Asked if she saw signs of dramatic progress on Afghanistan she replied: "I have seen no evidence of that".

In his meeting with Congressional leaders, which had been shifted to the Soviet Embassy because of fierce opposition to a visit to Capitol Hill by the Soviet leader from conservative Republicans, Mr Gorbachev sought to rally support for the INF treaty which the Senate will have to ratify.

"I would invite you all to co-operate in making (the INF treaty) become part of our lives," he said.

The public support for the INF treaty and the impact Mr Gorbachev seems to be having on that support appears to have had an influence on the tactics of one of members of Congress attending the meeting.

Senator Robert Dole, the Senate minority leader and a leading candidate for the Republican Party's presidential nomination, expected the Senate to ratify the INF treaty barring "any major surprises."

"I think it is going to pass without any amendment that will require renegotiation," he said.

EC to face legal action on failure to agree budget

BY TIM DICKSON IN BRUSSELS

THE EUROPEAN Community's financial crisis deepened yesterday when the European Commission announced that it was taking legal action against member governments for failing to agree a draft budget for 1988.

The unprecedented decision by the Brussels executive to take its case to the European Court of Justice followed the rapid collapse of yesterday's EC Budget Council after it became clear that there was no hope of reaching a compromise on two plans put forward by the Danish Presidency.

Under the Treaty of Rome, the Community's founding charter, the Council of Ministers is required to send a draft budget to the European Parliament by October 5.

Mr Henning Christophersen, the EC's Budget Commissioner, said he could not accept a breach of the Treaty of Rome by the budgetary authority. "This is and has been a serious breach and we need, for political reasons, to state that the institutions have to pay respect to the rules."

He added that he expected the European Parliament decide on the matter when it meets next week in Strasbourg.

The breakdown of budget negotiations is the first serious consequence of last week's failure by the EC's heads of government to agree during the Copenhagen summit to a package of longer term financial reforms, including measures to cut costs

A deal in Copenhagen would have raised the legal ceiling on the EC's own resources, which lie at only Ecu 35.3bn ($28.5bn) — well below what is needed to finance Community spending plans next year. These are estimated at Ecu 44bn.

The developments mean that without a legal budget next year, the Community will move to its highly complex system of emergency financing, known as "provisional twelfths" — allowing spending to continue every month at a rate equivalent to one twelfth of the previous year's budget.

The US has denounced an EC programme to subsidise production of long-grain rice.

The US claimed that the community had broken the standstill commitment under which trade ministers undertook not to introduce new protective measures while the Uruguay Round was in progress. Page 6

Mr Christophersen said this would provide just Ecu 34bn and that the Community would be in serious financial difficulties by June or July without a prior settlement to the problem.

Some research programmes could be handicapped much earlier in the year, but agricultural spending should be safeguarded at least until the middle of 1988 under rules which provide three-twelfths of the previous year's budget immediately. Applications have been made for so called "additional twelfths" to take care of urgent annual payments due on January 1, such as rents, insurance premiums and commitments under an external fisheries agreement.

Community officials and diplomats hope the crisis will be resolved by an agreement on future financing at the special Brussels summit planned for mid-February. Much, however, depends on the West German Government, which not only blocked the final compromise in Copenhagen because of measures proposed for cereals farmers, but which also becomes President of the Council of Ministers on January 1.

Greece, Spain and the UK opposed the plan for a "maxi-budget" of Ecu39.32bn plus a balancing factor of almost Ecu4bn. Spain, the Netherlands, Portugal, the UK and Belgium favoured respecting the current legal ceiling, accompanied by a unanimous declaration that a supplementary budget would be declared to cover the shortfall.

Euphoria diluted by suspicion

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

"HE CALLS ME RON," said President Ronald Reagan when he was asked on Tuesday night how the two leaders refer to each other.

The disclosure perfectly captured the mood of the summit at the end of a day which began with the pageantry of Soviet leader Mr Mikhail Gorbachev's arrival at the White House and ended with a formal state dinner which metamorphosed into an intimate soiree.

As pianist Mr Van Cliburn played a sentimental Russian drinking song, "Moscow Nights," Mr Gorbachev and the other Soviet guests sang along quietly. When it ended Mr Van Cliburn planted a kiss on the Soviet leader's cheeks.

"Can you trust him?" The question was thrown at Mr George Shultz, the Secretary of State, in a television interview earlier in the afternoon. "Is he honest?" the interviewer persisted. "Does he deliver?"

After only three days in the US, three days during which Mr Gorbachev exploited to the full both his abilities as a communicator and the US media's fascination with a personality who does not fit central casting's preconceptions of the brutal Communist dictator, the questions were inevitable.

Mr Shultz, offering the most authoritative comments on the first day of talks, had, in his stolid, dependable way sought to damp down the euphoria earlier in his interview.

Yes, he said, the summit "is an important event...it shows that we can solve a very important and difficult problem...there is a pattern of interaction that is basically healthy."

But, he went on, "people are throwing their hats in the air, but they also know that the hat is going to come down and you have got to put it back on again

Continued on Page 20

Lonrho, Krupp poised for deal

BY PETER BRUCE IN BONN AND NIKKI TAIT IN LONDON

LONRHO, the British international trading group headed by Mr Tiny Rowland, is poised to buy half of one of West Germany's largest trading houses, and strengthen its links with Iran, following unusual talks with the Fried Krupp steel and engineering empire.

Krupp said yesterday that its supervisory board had agreed to co-operate with Lonrho and that Mr Rowland would buy a stake of up to 50 per cent in Krupp Handel, Krupp's trading arm. The company would become known as Krupp-Lonrho GmbH.

Last night, neither Lonrho nor Krupp would say how much Lonrho would pay, or disclose the size of its stake.

Even if successful, neither side expects the deal to be complete until the new year and it will still require the approval of West Germany's strict cartel authorities.

Mr Spicer said that Lonrho saw "tremendous synergy" between Krupp Handel and its own interests.

The German company's activities range from steel and steel products trading, scrap metals, to fuel distribution, shipping, plant contracting and contractors' equipment.

Lonrho takes in an engineering division and has extensive distribution activities.

Krupp, in which the Iranian Government has a long-standing 25.01 per cent stake, is reorganising its operations following a study by McKinsey, the management consulting group. Krupp Handel offers Lonrho a unique entree into a German trading network.

Mr Spicer cited the Iranian interest as further evidence of synergistic interests.

In August, Lonrho was reported to have agreed a $1bn a year barter deal with Iran for food and other products in return for oil.

Krupp, however, stopped trading in crude oil two years ago and does not offer Lonrho any immediate prospect of distributing Iranian oil, even if it wanted to.

Krupp said its contract printing division, Krupp Grafische Betriebe, would also be included in a new joint company with Lonrho.

In London, analysts were pointing to parallels between the deal in 1981 when Lonrho acquired half of Kuehne + Nagel, one of Germany's biggest transport operations from the Swiss Kuehne family.

Feelings are running high in the Ruhr and the meeting of the supervisory board that approved the Lonrho deal had to be delayed after angry steelworkers broke into the group's legendary home, the Villa Huegel in Essen, to protest.

Ice barons clash in land of Cherry Garcia

By James Buchan in New York

THIS is a cautionary tale of American capitalism.

In 1977, two footloose ex-hippies, Mr Ben Cohen and Mr Jerry Greenfield, bought an abandoned gas station in the town of Burlington, Vermont, and started making ice cream in one of those rock-salt freezers you can still find in New England used-furniture stores.

Both were 26 years old. Neither had much of a clue about ice-cream making and Burlington is a terrible place for the stuff - the town is below freezing three months of the year. But Ben & Jerry's Home-made sold and sold and sold.

In the spring of 1980, Ben & Jerry's went wholesale. Perhaps because it does not taste of hair oil, the ice cream caught on in supermarkets and grocery stores *all over New England.* In 1984 and 1985 the company raised $8m from stock and debt offerings to build an expanded plant at Waterbury, near Burlington.

Sales of Health Bar Crunch and Butter Pecan and other rich and creamy ice creams have since doubled every year, from just $981,000 in 1982 to $20.5m in the first eight months of this year.

Now aged 36, Ben Cohen and Jerry Greenfield are multi-millionaires, but wealth has not spoiled them. They have brought in some professional managers, but it is Ben and Jerry who decide how the ice cream should taste. The latest flavour is Cherry Garcia, a confection aimed with devastating accuracy at the mass of Americans who whiled away the 1960s listening to the music of Mr Jerry Garcia and the Grateful Dead.

***The stock offering* bypassed Wall Street. Stickers on the ice-cream tubs explained to customers how to apply for shares. The company still gives 7.5 per cent of its pre-tax profits to Vermont charities and hands out free ice cream at school sports days and hospitals. Ben and Jerry refuse to cash in their $25m company, in spite of countless offers from big food conglomerates.**

"We want to remain a strong, independent and socially responsible business," Mr David Barash, 31, who looks after community relations, says.

***This may not be easy.* The market for homemade or**

Continued on Page 20

CONTENTS

OPPONENTS CALL TIME ON ITALY'S OLD-STYLE POLITICS

Bettino Craxi, former prime minister, warns Italians will no longer accept impotent governments, Page 2

A more open and competitive economy is leading to renewed demands for constitutional reform, reports **John Wyles in Rome**

Pressure grows in Italy for changing the rules of the political game

MR CIRIACO DE MITA, the leader of Italy's Christian Democrats, says that the country's political system is facing "catastrophe if nothing is done".

Mr Bettino Craxi, the former Prime Minister and Socialist Party leader, warns that Italians will not go on accepting impotent governments. Mr Alessandro Natta, the secretary of the Communist Party, observes that the political and institutional system is "exhausted and degraded".

These statements, all made in the last fortnight, imply an unusually wide measure of agreement between men more accustomed in recent years to emphasising their differences. Suddenly they seem to be at one in agreeing that the rules of the *Italian political game* as it has been played for the last 40 years will no longer do.

La Grande Riforma is once again a live subject in Italy – hardly surprising in the wake of a recent unnecessary political crisis, a new rash of corruption charges against prominent politicians, the lowest turnout in a referendum and public transport strikes which the Government has been powerless to curb.

Periodically over the last 10 years, senior politicians have lamented the "gap" between the people and the institutions and warned that the roots of the fragile flower of Italian democracy need a nourishing dose of reform and good government.

Many experts on Italy agree with the US political scientist Mr *Joseph Lapalombara, who argues* in a new book* that reform is unlikely because it would threaten the parties' extensive *control of the economy and institutions.*

Deadline

However, this may underestimate the pressures pushing them, however reluctantly, in the direction of change. While undoubtedly a conservative people, Italians are also highly competitive and the opening up of their economy in terms of trade and investment is producing a generation of managers, trade union leaders and even politicians more concerned about how their country compares with the leading performers on the international stage.

For these groups, the European Community's 1992 deadline for completing the internal market is a key date for modernisation affecting industry, banking and finance. Above all, a formidable legislative output will be required from a parliamentary system which did not manage to convert into law even half of the Government's legislative proposals between 1983 and 1987.

While the demand for coherent government and legislative efficiency is strongest from a healthy, if preoccupied, private sector, there is also a more diffuse but identifiable clamour from society at large for changes in the "other Italy". This is not the south, but the range of public sector services from health to railways, from the post to urban transport which are wasteful, inefficient, frequently corrupt and subordinated to the control of the political parties.

Obviously, it is too much to expect of Italian political parties that they sign a self-denying ordinance which would roll back *their power, influence and* wealth. But there are glimmers of agreement over ends which could curb the worst excesses of "partitocracy".

One is that the executive needs strengthening so that governments do not change every nine or 10 months. Another is that the legislative system needs to be streamlined and made more efficient.

That these are now common denominators among the leaders of the three parties which took nearly 75 per cent of the vote in the June elections, is encouraging. That the Communist Party's central committee, hitherto tepid on the subject, has decided to give political reform a higher priority than trying to forge a "left alternative" to the present *five-party governing coalition* is even more so.

Among other things, both Mr De Mita and Mr Craxi will be competing for Communist support *for their markedly different* approaches to political reform.

First step

If there is to be any progress, it is unlikely to be very ambitious. As a first step the parties may be able to agree on changes in parliamentary procedures and practices which would speed up a disastrously slow legislative process. They may also agree to abolish the secret vote which on too many occasions enables the governing majority to melt away over important pieces of legislation.

While Mr Craxi may never succeed in converting others to his vision of a directly-elected president of the republic, he already has some support for a 5 per cent voting threshold which, in the last election, would have locked out 10 of the parties currently enjoying parliamentary representation.

Mr de Mita has bobbed and weaved on detail but favours alternative coalitions lining up before an election with the winner receiving a special premium to guarantee a comfortable majority of seats. The Communists want to abolish one house of parliament, introduce single-*member* constituences and reduce the number of MPs.

Obviously, a formidable obstacle to agreement is the fear that one or other of the parties has more to gain or less to lose from political reform.

Above all, the smaller parties are watching the exchanges between the three big parties closely, for in any search for coherence and stable governments they are the ones most *easily discarded* from an overcrowded pack.

Democracy Italian Style. Yale University Press, 14.95.

Wage protest in Slovenia

ABOUT 700 workers at a large machine-tool factory in Ljubljana, the capital of Slovenia, went on strike yesterday and marched to the republic's assembly building in protest at low *pay and falling living standards*, **AP reports.**

So far this year, Yugoslavia has experienced an unprecedented *1,300 strikes involving more* than 200,000 workers, but stoppages have been rare in the most developed northern republic of Slovenia.

Unicef makes progress against child mortality

BY ANDREW MARSHALL

SIMPLE low-cost techniques are saving the lives of approximately 2m children a year in the developing world, Mr Richard Reid, Unicef's regional director for the Middle East and Africa said yesterday.

But in its annual report, The State of the World's Children 1988, Unicef, the United Nations Children's Fund, says that there is still a long way to go in checking the "quiet carnage" of infant mortality. The report urges the creation of "Alliances for Children," links between the medical profession, media, and politicians. "If the challenge is to be met, it will be met by a social movement rather than a medical movement alone," the report says.

More than 250,000 children die every week in the developing world from frequent infection and prolonged under-nutrition. Many others survive in desperately deprived conditions.

Diarrhoea is the leading cause of child death, killing some 5m children last year. But oral rehydration therapy (ORT), the treatment of diarrhoea using a simple solution of glucose, salts and water, is estimated to save 600,000 lives a year. Unicef's goal is to spread the use of ORT, which is simple, cheap and effective.

Immunisation, which now reaches 50 per cent of the developing world's children, is "the success story of the decade," the report says. The world-wide supply of vaccines by Unicef has increased almost four-fold in the past four years, and is now estimated to prevent 1.3m deaths a year. But the intention is to maintain the momentum, and immunise all children by 1990.

The report underlines that, although both these techniques are simple and cheap, there are considerable barriers to progress. The greatest need, the report says, is to inform and support parents with the aim of gaining access for all to these basic techniques, which could reduce child mortality by 50 per cent by 1990. It echoes the slogan which the World Health Organisation has chosen for its 40th anniversary next year: "Health for All - All for Health."

Sigh of relief as Hungary's liberal voice wins reprieve

BY LESLIE COLITT, RECENTLY IN BUDAPEST

THERE was an audible sigh of relief among politically-aware citizens this week when it became clear that Hungary had been spared its version of Moscow's "Yeltsin affair." Persistent rumours in recent weeks claimed that Mr Imre Pozsgay, *the outspoken liberal Communist* who heads the Patriotic People's Front, would be among senior officials removed from office.

Mr Pozsgay is the party's leading proponent of a sweeping democratisation of Hungarian society. He recently proposed that parliament should control the party and government while urging citizens to "unite, establish representation and movements" which would exert pressure on decision-making bodies.

The 57-year-old Mr Pozsgay has become immensely popular especially among younger Hungarians and intellectuals. After attending a gathering of critical intellectuals last September, which included outright opponents of the party, he praised them for remaining within the bounds of legality.

But Mr Pozsgay is the bane of conservative ideologists within the party who fear for its leading role. The rumours of his imminent *departure for the provinces* were widely seen as bearing their trade mark. But Mr Janos Kadar, Hungary's leader, apparently resisted pressure to smother the party's most liberal voice. Such a move would have clashed with the leadership's attempt to gain wider support for its unpopular measures by gradually democratising Hungarian institutions.

A first step in this direction is the liberalisation of travel to the West from January 1. Hungarians will be allowed to visit the West as often as they wish provided they have the necessary hard currency for individual trips or forints for package tours.

The central committee meeting last Tuesday approved several measures proposed by Mr Karoly Grosz, the Prime Minister, to streamline his six-month-old government. The Foreign Trade Ministry is to be merged with the Domestic Trade Ministry and a *superministry of health and welfare* is to be created.

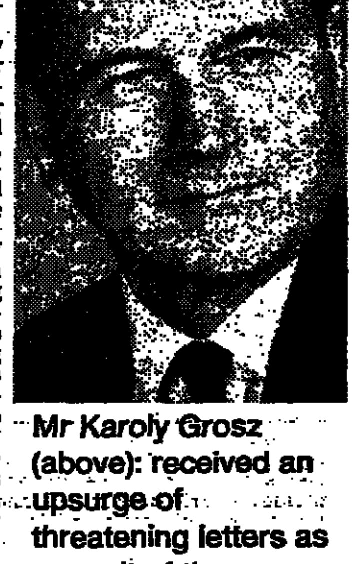
Prime Minister Grosz wants to make the ministries responsible to him alone as part of a clear separation of the party and government in economic life. But it will not be easy, if only because he remains an important member of the party's ruling politburo.

When Mr Grosz took office last June in a reshuffle designed to relaunch the economic reform programme, which has long been at stalemate, he was widely expected to remove senior government officials not known for their reforming zeal. Nothing has happened yet and fears are mounting that the reforms might again be blocked by inertia on the part of officials with a vested interest in the status quo.

Overshadowing all other developments, however, is the forthcoming introduction of VAT and personal income taxes for wage earners. Official estimates say prices will rise next year by 14 to 15 per cent as a result of VAT and the elimination of most consumer subsidies. Real wages are to fall by 8 to 10 per cent. Many Hungarians, mistrustful of official statistics, fear the toll of their purchasing power will be far greater.

Mr Grosz admitted last month that the atmosphere in Hungary had become polarised and that more extreme elements had entered the political scene. He said there was an upsurge in threatening letters sent to him, his deputies and other officials as a result of the austerity measures. But, he reasoned, it was something "we have to live with".

To neutralise the initial impact of personal income taxes, state companies will increase net incomes of employees so that they remain the same as before taxes. But many Hungarians suspect that such generosity, together with social benefits to offset tax-induced price rises, are a ruse.



Mr Karoly Grosz (above): received an upsurge of threatening letters as a result of the austerity measures. But, he reasoned, it was something "we have to live with"

Self-employed people such as the young man who runs a booming hamburger stand in Lenin Street, are busy trying to compute their expected tax "damages" next year. Although private shopkeepers were subject *to personal taxation in the past*, in practice they were able to avoid paying all but nominal taxes.

A completely new profession, that of the tax adviser, will make its debut in Hungary on January 1. Their fees will not be regulated but advisers will be made financially liable for false advice to clients.

Although company taxes are to be reduced from a maximum of 90 per cent to 70 per cent, confusion reigns because some old taxes are to be retained while VAT is introduced. The tax reform was designed to eliminate the practice of milking profitable companies to subsidise loss-making ones, but the Government is uncertain whether the new taxes will make up for the losses of the old ones.

Amid this turmoil it was a minor sensation that Hungary's trade deficit to the West in the first nine months fell by \$152m compared with the \$617m deficit in the same period last year. The balance of payments deficit dropped to \$990m from \$1.2bn last year.

Officials of the national bank said the improved trade picture – partly in response to an 8 per cent devaluation of the forint early this year and partly to export incentives – should lead to a balance of payments deficit this year of about \$950m compared with a \$1.4bn deficit last year. Such progress notwithstanding, Hungary's hard currency debt of \$16bn gross and \$9.1bn net will remain the highest in Eastern Europe per capita for some time.

Explosion at Sandoz plant

An explosion and fire took place yesterday at the Schweizerhalle plant of Sandoz, the Swiss chemical concern, **writes John Wicks in Zurich.** In November last year, a big chemical fire at the same plant led to large-scale pollution of the Rhine.

Although six people were slightly injured in yesterday's fire, which was quickly extinguished, the company and the Basle police have stated that there is no danger to public health or to the river.

FINANCIAL TIMES

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Hassan steps down as leader of Gibraltar

BY JOÉ GARCIA IN GIBRALTAR

SIR JOSHUA HASSAN, Gibraltar's chief Minister, yesterday confirmed that he was resigning. He will be succeeded by Mr Adolfo Canepa, his deputy.

The resignation, which Sir Joshua, aged 72, said was for personal reasons, brings to an end a political career spanning more than 40 years. He will remain a backbencher until Mr Canepa dissolves the present legislature. A general election must take place during the first quarter of next year.

Mr Canepa refused yesterday to express a view of the recent Anglo-Spanish deal on joint use of Gibraltar airport, which was thought to have affected the timing of Sir Joshua's resignation. The matter is likely to be resolved after the election.

However, Mr Joe Bossano, the opposition leader, is moving a motion at next Tuesday's meeting of the House of Assembly rejecting the terms of the airport agreement. That meeting will be Mr Canepa's first public appearance as chief minister.

Mr Bossano's motion reiterates the view that the international use of Gibraltar's airport should be on the basis that no special privileges are accorded to Spanish airlines, passengers with a Spanish destination or the Spanish aviation authorities. It reasserts Gibraltar's right to be included in the European air liberalisation package as a British regional airport without preconditions.

Sir Joshua, for his part, has been stressing that his retirement comes at a time of renewed economic prosperity in Gibraltar following the full opening of the Spanish border nearly three years ago. Gibraltar will be free to decide if it wants the airport deal, he said.

Era of more extreme politics may be opening

BY JOE GARCIA

THE DEPARTURE of Sir Joshua Hassan from the Gibraltar political scene at the age of 72, after more than 40 years, leaves a gulf which will be difficult to fill. It is likely to mark the end of an era of moderation and pragmatism, with the chances of more extreme politics coming into play.

Sir Joshua first mooted retiring in 1975 but, after General Franco's death that year, he opted to stay on in the hope that a democratic Spain would show greater understanding for the wishes of the Gibraltarians to help solve the centuries-old sovereignty dispute.

If anything, Britain is now showing greater understanding of Spanish unease about Gibraltar, as shown by the 1984 Brussels agreement when sovereignty came up for discussion for the first time, and by the more recent deal on joint use of the colony's airport which most Gibraltarians oppose.

Sir Joshua, however, takes comfort from the fact that the fate of the airport deal is being left to Gibraltarians to decide. When he returned from the London talks last week he gave the impression of favouring the agreement, describing it as "the best possible deal". The Opposition leader, Mr Joe Bossano, accused him of "betraying the sentiments and commitments of the House of Assembly and the people of Gibraltar".

Now Sir Joshua has revealed that, throughout the discussions with Britain, he made it "abundantly clear" that the Spanish proposals for the joint use of the airport were unacceptable to Gibraltar.

It was not the first time that he has been forced to prove his credentials as protector of Gibraltarian interests. In the 1970s he was being accused of favouring a leaseback arrangement with Spain, and throughout the difficult years since then has had to perform a delicate balancing act to get what he wants without unduly upsetting London, Madrid or the Gibraltarians.

His successor as Chief Minister and party leader, the Economics Minister, Mr Adolfo Canepa, is far more outspoken and rejects the airport deal, while Mr Bossano, whose Labour party was recently put ahead of its rivals in opinion polls for the first time, firmly opposes talks with Spain about its sovereignty claim to the Rock. If anything, a more entrenched Gibraltarian posture is likely to become manifest in the post-Hassan era.

Sir Joshua first emerged in Gibraltar politics during the Second World War as dominant figure in the Association for the Advancement of Civil Rights, which was to become the biggest political force in the colony's history.

A Jew educated at the old Christian Brothers' College in Gibraltar, he later read law at the Middle Temple in London, before being called to the bar in 1939. When the city council was given an elected majority in 1945, the AACR romped home with more than 90 per cent of the vote, and Sir Joshua topped the poll.

For Sir Joshua, there was no looking back. His political career has spanned four decades of reform and constitutional advance, transforming the fortress Rock into a self-governing micro-state, with Britain retaining responsibility for foreign affairs, defence, and internal security.

He was the first mayor and the first Chief Minister. He lost one election, in 1969, to a coalition headed by the now defunct Integration with Britain Party. But he has won every election since, vindicating the pro-British stance which his opponents have questioned.

Throughout his remarkable political career, Sir Joshua has displayed the kind of resilience and endurance that provides comfort to his supporters and dismays his political adversaries. Other parties have come and gone, but the AACR is still there.

It was Sir Joshua who coined the phrase, "With Britain, but not under Britain". His legal training tells him that Gibraltar could become independent, as long as the Queen remained head of state, as this would not represent a breach of the 1713 Treaty of Utrecht, Britain's legal title to the Rock. But London will hear nothing of it, and Sir Joshua takes the line that a tailor-made formula of "free association" with Britain is the way ahead.

"It matters not whether juridically or theoretically the people of Gibraltar have the right to self-determination. We believe that we do have that right," he said. "What really matters is that Gibraltar's sovereignty is not going to be transferred to Spain against our wishes."

Madrid shrugs its shoulders

By Tom Burns in Madrid

THE RESIGNATION of Sir Joshua Hassan was greeted with a studied lack of comment by officials in Madrid

But there appeared to be no undue discomfort in the Spanish Foreign Ministry at the prospect that the Rock's veteran strongman could be succeeded, following elections early next year, by the uncompromising opposition leader, Mr Joe Bossano.

Reflecting Spain's consistent view that the Gibraltar dispute concerns solely the British and Spanish governments, officials here said yesterday's resignation was a development that had nothing to do with Spain.

There was also a marked lack of concern at the prospect of an electoral win by Mr Bossano whose hostility to any deals with Spain are as well known in Madrid as they are in London and Gibraltar.

Officials said that should Mr Bossano be elected with a mandate to reject the recent Anglo-Spanish agreement on joint use of Gibraltar airport, Spain would not be unduly affected. Mr Bossano's hardline stand should be of more concern to Britain than to Spain.

The officials said that Madrid was in no hurry to open Gibraltar airport to dual use by Spain and Britain.

European concerns launch technology research institute

BY JOHN WYLES IN ROME

A PRIVATE sector initiative for exploiting Europe's research and development capabilities, the European Institute of Technology, was launched in Rome yesterday by a handful of multinationals.

They aim to bring together industry's R&D efforts with precompetitive university research in the hope of speeding up technological innovation and helping universities to be more sensitive to industry's scientific requirements.

Stressing the advantages which US and Japanese companies enjoy through efficient industry-university relations, Mr Giorgio Porta, managing director of Montedison, told the launching conference: "Collaboration between industry and universities is an important channel through which advances in knowledge can be put to use in technological innovation and exploited in the market."

Founding companies include the Italian chemicals and pharmaceuticals company, Philips of the Netherlands, AT&T Europe and IBM Europe.

They hope to be joined by another seven or eight by the end of January and double the number by the end of the year. Each company contributes Ecu200,000(£140,000) towards funding the institute's activities.

The initial project areas will be information technology, materials science and biotechnology. The institute will be decentralised, with a number of scientific centres and individual researchers across Europe.

Projects will be chosen according to their relevance for educational and industrial needs and funded partly by EIT funds together with money from participating companies and public institutions.

The organisers said yesterday that they were conscious of the need to involve small and medium-sized businesses in the project.

Mr Tage Frisk, vice-president for science and technology of IBM Europe, said that Europe had been weak in speeding up the transfer of reaearch into product development. "This is one thing EIT hopes to improve," he added.

The institute is the result of discussions in the Roundtable of European Industrialists on setting up a European version of the Massachusetts Institute of Technology.

Having rejected this on the grounds of cost, most companies represented on the Roundtable are eventually expected to back the less ambitious EIT.

Commission drops case against nine airlines

BY TIM DICKSON IN BRUSSELS

THE European Commission decided yesterday not to proceed with its direct legal action against nine major European airlines.

The move to drop the suit had been expected following Monday's landmark deal on airline reforms, which provides for lower discount fares for air travellers and the prospect of greater competition on both new and established routes.

Commissioners in Brussels - notably Mr Peter Sutherland, the Competition Commissioner - became increasingly exasperated at some member states' reluctance to embrace even the relatively modest degree of change in a package which was first proposed more than two years ago.

In an effort to force the pace of the political negotiations, the Commission initiated proceedings against the cartel agreements of several large airlines, including British Airways and Lufthansa, alleging infringements to the competition rules under Article 89 of the Treaty of Rome. This was widely seen as a somewhat cumbersome process but observers feel that it had the desired effect on national governments helping to pave the way for this week's deal.

A senior Commission official pointed out yesterday that the regulation agreed by transport ministers on Monday gives the Commission important new investigative powers and enables the Brussels executive to fine airlines which persist with anti-competitive practices other than those specifically exempted from the Treaty rules.

In a separate move yesterday the Commission decided to open an "infraction procedure" against France because of alleged discrimination on the basis of nationality.

This follows an incident at Brussels airport over the summer when a charter aircraft, owned by Sobelair (part of the Belgian national airline Sabena) could not take off because it was refused landing rights at the French Antilles. The justification was that more than 20 per cent of the passengers were French, and that Sobelair was thus potentially taking business away from French airlines.

French riot police storm central bank building

BY PAUL BETTS IN PARIS

FRENCH RIOT police stormed the Paris headquarters of the Banque de France in the early hours of yesterday to free two senior officials trapped in the building by striking employees.

The action by the CRS riot police, in which six strikers were slightly hurt, is likely to worsen the atmosphere in the week-long strike that has crippled the French central bank and its operations.

The police forces were called in after Mr Philippe Lagayette, a deputy governor of the central bank and the former private secretary of Mr Jacques Delors, when the European Commission president was French Finance Minister, and Mr Raymond Penaud, the bank's personnel manager, were detained in the bank by protesting employees. The two officials were prevented from leaving the bank after a new round of negotiations failed to break the deadlock between the unions and the central bank's management.

The strike, which started nine days ago, is beginning to disrupt the day-to-day operations of the French banking system. It is already having an impact in centralised cheque clearing operations, and has caused a shortage of new bank notes which has especially disrupted automatic cash dispensing machines in many French cities.

The majority of the bank's 17,000 employees are seeking improved pay and benefits as well as job security guarantees.

Timber group told to repay government aid

BY WILLIAM DAWKINS IN BRUSSELS

PINAULT, the French timber products group, was yesterday ordered to repay within two months FFr14m(£985,000) in state aid.

The order was made by the European Commission on the grounds that the cash, which includes interest on advances and loans to Pinault and one of its subsidiaries, Isoroy, had given the company an artificial competitive advantage. Under EC rules, almost all kinds of state industrial aid must be cleared by the Commission first. Paris failed to notify Brussels of its assistance to Pinault.

Isoroy was formed from the merger of three smaller wood processing groups in 1982, helped by a state aid package. The group filed for bankruptcy three years later, following which it was taken over by Pinault, which had insisted on the granting of a second state aid package. A rival offer by the multinational Seribo timber group was refused, even though Seribo did not ask for any state assistance.

Air France pilots strike over manning Airbus

AIR FRANCE pilots have called a four-day strike from today in protest against the airline's refusal to discuss flight deck manning on the new Airbus A320 short-haul airliner, a union spokesman told Reuter.

The airline warned travellers of the stoppage in advertisements in French newspapers on Wednesday but said it believed it could maintain most flights. An airline spokesman said: "We are expecting to operate 75 per cent of our long-haul flights and 80 per cent of our medium-haul flights."

Air France said the dispute centred on a demand by pilots for extra money to fly the A320, which will have only two flight deck crew instead of the three on most airliners. The A320 is due to enter service next year.

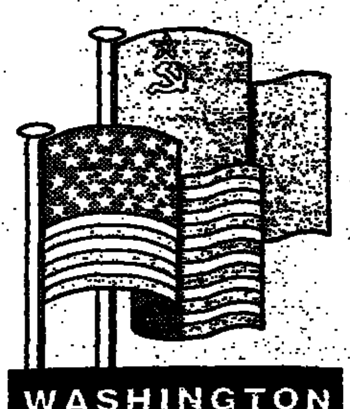
"It is not a question of pay, it is a question of working conditions," a union spokesman said. He accused the airline of refusing to negotiate.

Air France ground staff have called an unrelated token strike on Thursday in protest against promotion policy.

THE SUPERPOWER SUMMIT

Gorbachev ushers in confident foreign policy

Patrick Cockburn analyses Moscow's switch to a more sophisticated diplomacy



WASHINGTON SUMMIT

THE WASHINGTON summit marks the triumph of Mr Mikhail Gorbachev's two-and-a-half-year-old campaign to make Western, and particularly American, public opinion more sympathetic to the Soviet Union as a necessary precondition for diplomatic success in improving US-Soviet relations.

This is in sharp contrast to the more 18th century-style diplomacy of Mr Andrei Gromyko, Soviet Foreign Minister for 28 years up to 1985, with his almost exclusive preoccupation with secretive negotiations with leaders such as President Richard Nixon and Dr Henry Kissinger.

Mr Gorbachev and his advisers have always been extremely conscious that the narrow diplomatic basis of the first period of detente in the 1970s was extremely vulnerable to attacks from the US political right. Ever since the summit in Geneva in 1985 the Soviet leader has given priority to defusing the demonology of "the evil empire".

His degree of success, as indicated by opinion polls which show Mr Gorbachev enjoying a degree of public esteem scarcely less than President Reagan, has surprised Soviet policy makers. They want to take advantage of this by pushing quickly for a strategic arms limitation treaty (Start), and they also believe that President Reagan is invulnerable to effective attacks from the US right for being soft on communism, in a way that may not be true of his successor in the White House.

But there is more to the new style of Soviet diplomacy than a greater willingness and ability to appeal to Western public opinion.

Soviet foreign policy making is now marked by far greater confidence than under Mr Leonid Brezhnev. This derives largely from the election of Mr Gorbachev, whose arrival ended the prolonged leadership crisis which had paralysed and demoralised the Kremlin from 1978 to 1985.

Soviet experts also feel that the events of the last 15 years show that the balance of power between Moscow and Washington is fundamentally stable. In the four main areas of superpower competition - nuclear and conventional arms, relations with Europe, China and the Third World - neither side has been able to make significant gains.

The present dialogue is therefore underpinned by the feeling in Moscow that effective competition with the US is expensive, difficult and unlikely to produce results.

MR Mikhail Gorbachev, the Soviet leader, will brief Warsaw Pact leaders in East Berlin tomorrow following his Washington summit with President Ronald Reagan, diplomats and East German sources told Reuter in East Berlin. They elaborated on an announcement from the official East German news agency which said: "A meeting of the leading representatives of the member states of the Warsaw Pact will take place in Berlin on December 11 1987 according to a joint agreement." It gave no more details.

East German officials said all seven Pact leaders - from Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Romania and the Soviet Union - would meet in East Berlin.

Mr Gorbachev has made a point of briefing his allies after each summit meeting he has had with Mr Reagan. Speculation was rife in East Berlin that Mr Gorbachev would make a short stopover on his way home to Moscow from Washington, where on Tuesday he and Mr Reagan signed the INF treaty.

Diplomats said one reason why the Soviet leader chose East Berlin as the venue to meet other members of the Pact was that East Germany is one of two East European countries, along with Czechoslovakia, where the medium-range missiles are based.

The Soviet Union also takes comfort from the inability of the first Reagan Administration to convert confrontational attitudes into effectively confrontational policy.

Soviet experts have also been extremely successful in getting Mr Gorbachev to adopt as official policy the doctrine of "reasonable sufficiency" in nuclear arms. This holds that, given the destructive capacity of nuclear weapons, past a certain point more weapons add nothing to military effectiveness.

This doctrine marks a shift from the early 1980s when Marshal Nikolai Ogarkov, the Soviet chief of staff, dismissed in 1984, was evidently demanding heavy expenditure on developing expensive high technology conventional weapons.

In a seminal article in the Communist Party daily Pravda on July 9 this year, and which remains the most coherent account of new developments in Soviet foreign policy, Dr Yevgeny Primakov, one of Mr Gorbahvev's foreign policy experts, spelled out that Soviet security could be better improved by political means rather than seeking to raise the combat effectiveness of the Soviet armed forces.

This change in military doctrine is accompanied by a reduction in the input of the Soviet military into overall Soviet security policy in recent years. This is in part a result of the passing of the wartime generation of leaders but also flows from the knowledge of the economic impact of spending some 13 per cent of Soviet GNP on national defence.

The dismissal of Marshal Sergei Sokolov, the Soviet defence minister and the head of air defence earlier this year for failure to stop Mathias Rust landing an aircraft in Red Square, underlined that the military lobby is on the defensive.

This is not to say that military spending is going to fall - the Central Intelligence Agency in any case say that investment for a new generation of conventional arms is already in place - but is likely to be under much tighter political control.

The speed of change in Soviet foreign policy has been aided by two other factors. Firstly Mr Gorbachev's two closest and most radical supporters in the Politburo are involved in foreign policy: Mr Eduard Shevardnadze, the Foreign Minister, and Mr Alexander Yakovlev, the Party Secretary for Propaganda and Culture. Change has therefore been far easier to introduce in Soviet foreign policy than it is in running the economy.

The second change is that the functional division between the state and Communist Party in determining Soviet foreign policy is now much reduced. This has limited the role of dated ideology in effecting relations with other states.

In regional conflicts - the main topic of discussion between President Reagan and Mr Gorbachev yesterday - such as the Gulf or Africa, the Soviet attitude is that the ability of either superpower to intervene effectively is now much less than in the 30 years after 1945. They feel the world is far less pliable and intervention, even where successful, will never be cost-free.

This is exemplified by Soviet experience in Afghanistan. Despite moderate noises about withdrawal of Soviet forces in return for an end to US supplies to guerrillas, diplomats in Moscow have yet to detect a decision to accept the fall of the government in Kabul.

The Soviets know that other Soviet allies are extremely nervous that better relations with the US will be at the expense of old friends of Moscow. Here the signals are conflicting with heavier support this year for Angola but a cut in oil supplies to Nicaragua.

This may be explained by Soviet fear that the Angolan government might collapse under pressure from Unita in South Africa but a belief that the US-backed Contra rebels stand no chance of taking power in Nicaragua - and Soviet support might be counter-effective.

But while Soviet foreign policy is now more sophisticated and flexible than three years ago on central issues such as reduction in strategic weapons by 50 per cent, which the Soviet Union really does feel affects the balance of power with the US in a way that INF does not, negotiations are likely to be extremely tough.

Soviet admission raises hopes of Star Wars deal

BY DAVID BUCHAN DEFENCE CORRESPONDENT

MR Mikhail Gorbachev's official admission that his country is pursuing research into space-based missile defence creates an opening for agreement on the vexed issue of the US Strategic Defence Initiative and how it affects the Anti-Ballistic Missile pact, according to some observers, notably Mrs Margaret Thatcher, the UK Prime Minister.

Certainly, it removes the basis for Moscow's public show of moral indignation since Mr Reagan launched his SDI, or Star Wars project, nearly four years ago. The Soviet leader was quite categoric in his US television interview last week. "The Soviet Union is doing all the US is doing and I suppose we are engaged in research, basic research, which relates to these aspects which are covered by SDI in the US."

Whether the two leaders can come to an early agreement on SDI in the context of the ABM treaty remains doubtful, despite some intriguing signs of recent flexibility with Soviet officials adopting some suggested SDI limits proposed to them by liberal US scientists acting privately.

It is even less likely that Mr Reagan's long-standing offer one day to share American SDI technology with Moscow will come to pass. It would for one thing make a mockery, in the eyes of US allies, of all Washington's efforts to keep hi-tech with military potential out of Soviet hands.

In fact, there has been an involuntary sharing of SDI technology, in both directions. The Pentagon says much of its understanding of how particle beams could be made into practical weapons of a kind that could destroy a satellite's electronics came from published Soviet research. In internal KGB documents reaching the West several years ago, various Soviet institutions acknowledge what they have gained from the US in Stars Wars-type technology.

For instance, the Institute of Atomic Energy, whose deputy director, Mr Yevgeni Velikhov, has been a key Gorbachev adviser at summits, is recorded as gaining from US experience in studying the optimum weight and dimensions for space and military aircraft of "a series of lasers from 1.5 to 10MW." Indeed, it has been the clandestine Soviet references to a Soviet SDI programme, so at variance until last week with public utterances from Moscow, that intensely irritated US officials.

Both superpowers appear to be working along the same lines to produce a combination of supercomputers to identify and track incoming missiles, and of high-intensity lasers, kinetic energy weapons (shooting heavy metal pellets at very high speed) and particle beam weapons to destroy the missiles at various stages in their flight.

Laser technology, for which two Russians and one American shared the 1964 Nobel physics prize, seems to be a main focus of the Soviet SDI programme. Much of the research has taken place at Sary Shagan in central Asia, which is also the main site for testing traditional anti-ballistic missile rockets such as the Galoshs and Gazelles legally emplaced around Moscow under the terms of the ABM treaty.

The Pentagon estimates about half, or \$1bn in US terms, of what the Soviet Union spends a year on SDI research goes on lasers. But for all that the US believes that the Soviets could not deploy a ground-based laser system before the late 1990s, while a space-based laser system would not be feasible before the next century.

Mr Reagan and Mr Gorbachev yesterday: Will they see eye to eye on the Strategic Defence Initiative?

Lionel Barber and Patrick Cockburn profile the arms negotiators

Grand Old Man of the nuclear arms race

MR PAUL NITZE, who heads the US arms control working group at the Washington summit this week, probably ranks as one of the most influential policy makers of the nuclear age.

Aged 80, he has over the past 40 years helped to define the terms of the superpower arms race, develop its concepts and fashion its future strategies. He helped to build the 1972 Salt I treaty which imposed limits on the growth of strategic offensive weapons, while his opposition to the follow-up Salt II treaty virtually doomed its chances of Senate ratification.

This week, Mr Nitze and his Soviet counterpart will be testing each other's positions on strategic offensive weapons – with a view to fleshing out the tentative Reykjavik agreement between President Reagan and Mr Gorbachev to cut their countries's respective strategic arsenals by half. The other key subject will be the US Strategic Defence Initiative – the space-based defence system – and how it relates to the 1972 Anti Ballistic Missile Treaty (which Mr Nitze, then serving under President Nixon) himself helped to negotiate.

Until recently, Mr Nitze, a New York investment broker in the 1930s, was labelled the ultimate cold warrior, not only because of his opposition to Salt 2 (when he joined the Committee on the Present Danger) but because, in 1950, he was the principal author of a policy study that recommended a four-fold increase in military spending to counter the Soviet expansionary threat after the Second Wrold War.

However, his opposition to an immediate commitment to deploy the SDI system has made him a target of hard-line conservatives.

Mr Nitze's position is simply that an ambitious SDI defence against offensive weapons may not be cost-effective at the margins. Indeed, he has suggested that SDI deployment could merely trigger a "costly and destablising offence-defence race".

He is believed to share Mrs Thatcher's desire for some mutual superpower agreement which regulates SDI testing in order to preserve the ABM treaty.

Whether there is room to compromise here would seem to depend on whether the Soviets continue to link the dramatic offensive missile cuts with tight restrictions on SDI testing and development. If the two issues are uncoupled, then rapid progress could follow.

Paul Nitze: influential policy maker of nuclear age

Tough, flexible army veteran

MARSHAL Sergei Akhromeyev, the Soviet Chief of Staff, has become a physical symbol of the support of the Soviet military for Mr Mikhail Gorbachev's arms control proposals.

In Washington, as at the last summit in Reykjavik in 1986, he is playing a prominent part in negotiations in which he has a reputation for being tough but flexible and genuinely seeking a solution to disgreements.

Appointed in 1984, Marshal Akhromeyev has accommodated himself well to the Gorbachev era. In contrast to Marshal Nikolai Ogarkov, his predecessor, dismissed for demanding more resources for the military, he has shown no signs of kicking against the official line.

At press conferences and in television discussions with US officials, he has shown himself one of its most effective advocates.

The dismissal of Marshal Sergei Sokolov, the Defence Minister, earlier this year, has opened the way for major changes in the Soviet military but there is no sign of this affecting Marshal Akhromeyev's position.

Born in 1923, Akhromeyev is one of the few left in the Red Army old enough to have joined up - in 1940 - before the German invasion. But not a great deal is known about his career, apart from service as first deputy commander of the important Byelorussian military district in western Russia from 1967-72, until he was promoted to general in 1980.

Clearly groomed as a potential successor to the wayward Marshal Ogarkov, in 1983 he was made a marshal and also a member of the communist party central committee. The job of chief of the general staff which he currently holds carries with it the post of first deputy defence minister.

Akhromeyev: upholding Gorbachev line

AMERICAN NEWS

Argentina hit by 24-hour general strike

By Tim Coone in Buenos Aires

A 24-hour general strike in Argentina yesterday paralysed public transport and forced the closure of most factories in the industrial belt around Buenos Aires.

Nonetheless, there was considerable activity in the capital's financial centre with shops, banks and offices open, although with reduced staffs.

This is the 10th general strike organised by the General Confederation of Workers (CGT) since President Raul Alfonsin came to power four years ago. Previously the strike calls have paralysed practically all commercial activity.

In a rally on Tuesday evening, Mr Saul Ubaldini, the secretary-general of the CGT, told 20,000 supporters that the strikes and other industrial action would continue until the Government changed its economic policy. He also made another scathing attack on the government's economic team.

Brazilian attempts to cut public spending collapses

BY IVO DAWNAY IN RIO DE JANEIRO

EFFORTS by the Brazilian Government to rein in public spending appear to have collapsed under pressure from government agencies and interest groups.

Officials at the Finance Ministry are now believed to be anticipating a public sector deficit at the year-end of between Cz650bn(\$10bn) and Cz700b.

This represents some 6.5 per cent to 7 per cent of gross domestic product or equal to forecasts at the beginning of the year before Mr Luiz Carlos Bresser Pereira, the Finance Minister, announced measures aimed at reducing the figure to 3.5 per cent.

Substantial pay rises for federal civil servants and the military and the re-introduction of wheat subsidies are among the many factors that have swollen spending.

Mr Bresser had attempted to eliminate the controversial Cz50bn wheat subsidies in June, but has been forced to resume the payments to avoid fuelling inflation by an estimated 2 percentage points. The inflation forecast for the month of December is now unofficially expected to exceed 15 per cent.

The mounting budgetary crisis has fuelled claims that Mr Bresser Pereira is increasingly in conflict with President Jose Sarney over how to cut expenditure and raise the Government's receipts.

A package of fiscal measures and spending cuts is now imminent, but it is uncertain how severe these will be. The Finance minister together with Mr Fernando Milliet, the president of the Central Bank, are both backing a new wealth tax among other changes aimed at raising the burden on the richer portion of society and lowering the tax burden on the less well off. But officials at President Sarney's Planalto Palace have ruled out any such move.

The differences between Mr Sarney and his finance minister have spawned a spate of rumours that Mr Bresser Pereira has threatened to resign if his proposals are not accepted.

● Lorry drivers and owners in Brazil have called off a national strike after agreeing a 53 per cent rise in pay rates and an 83 per cent increase in freight charges.

Arias wants Contra aid halted

BY KAREN FOSSLI IN OSLO

NOBEL PEACE prize winner, Mr Oscar Arias Sanchez, President of Costa Rica, said in Oslo yesterday that if peace was to be achieved in Nicaragua it was absolutely essential that the US should stop all funding to the Contra guerrillas.

Mr Arias is in Oslo to receive today the peace prize awarded him for his Central America peace plan which was signed by the five Central American presidents in Guatemala August 7.

He said that if peace was to be achieved in the region, no excuses should be made for anyone giving aid of any kind, whether it was aid for transportation, health or supplies.

While he is in Oslo Mr Arias will meet with Mrs Gro Harlem Brundtland, Norway's prime minister, Mr Jo Benkow, president of the Storting (Norwegian parliament) and members of Norway's standing committee on foreign affairs. With the Nobel prize award money Mr Arias said that he planned to establiah a fund for the needy in his country.

"I believe that this honour should be shared with my people and in a way the honour is not mine, but rather a tribute to my country and its achievements," he said.

● President Jose Azcona Hoyo says the leftist Nicaraguan government and the Contra rebels must be more flexible if they want a political solution to their civil war, **AP reports from Tegucigalpa.** He also agreed to allow international observers to inspect Honduras' southern border to guarantee that Contra training camps had been dismantled.

"The Contras must realize they will not return as victors to Managua and the Sandinista leaders should know by now they cannot turn Nicaragua into a totalitarian government like that of Cuba," Mr Azcona said.

Mr Azcona said there was some "pessimism" about the possible success of a Central American peace plan signed on August 7, "but the important thing is that we all feel this process must continue".

Delegations from Nicarágua's Sandinista government and the Contras last week held their first negotiations to end the fighting that has killed 40,000 people in their Central American nation in more than five years.

The two-day meeting in the Dominican Republic was to comply with the peace plan. Cardinal Miguel Obando y Bravo acted as mediator.

Negotiations ended in a stalemate, with Mr Obando pushing for direct talks and saying he was optimistic for a second round of negotiations this month.

Toronto is acting to pre-empt rabies hysteria, writes David Owen

Raccoon fever comes to town

THE BOOMING and affluent metropolis of Toronto is fortunate in having to cope with far less than its fair share of the run-of-the-mill urban scourges increasingly in evidence from Lambeth to Los Angeles.

Poverty is infrequent - although there are estimated to be between 50,000 and 65,000 homeless wandering the streets of the greater Toronto area. The per capita crime rate is a small fraction of that plaguing Detroit less than 300 miles away, and inner city decay is practically non-existent – although habitues of the much-maligned and frequently under-repair Gardiner expressway may beg to disagree.

It is even hard to find fault with public transport in a city which boasts copious buses and trams, as well as an immaculately-maintained subway system. "Jeez, it's cleaner than my house in here," exclaimed one New Yorker on venturing into the busy Bloor-Yonge intersection for the first time.

Indeed, so good is life for the majority of metropolitan Toronto's more than 3m inhabitants, that the left-of-centre New Democratic Party's socially-aware candidate for the provincial premiership could find little to campaign on. Mr Bob Rae was reduced to castigating Liberal leader, Mr David Peterson's then minority government for its failure to deal with beach pollution, and for the high cost of car insurance, in September's lacklustre Ontario election.

Every so often however, a problem does arise sufficient to crease the brows of Toronto's well-heeled populace and even, for a time, to vie with house prices and the Maple Leaf team as the dominant theme of bar and parlour conversation.

In recent weeks, such a problem has been the threat of a virulent new strain of rabies breaking out in the city's 5,000 to 10,000-strong raccoon population - particularly among the serried ranks of Toronto pet owners.

It's not that a single Torontonian raccoon has yet been afflicted by the dreaded virus. Indeed, the nearest case so far reported is 300 miles away in deepest Pennsylvania. But with the strain spreading through the state in question at a rate of 25 miles or so a year, Toronto, with exemplary civic foresight, has decided it pays to plan ahead.

Accordingly, owners whose dogs and cats are found not to have been immunised against rabies will face punitive fines of up to C\$5,000. The city recently held a series of C\$5-a-throw rabies clinics to help owners comply.

But there are still those who feel the powers that be could do more. The Toronto Humane Society believes that raccoon-proof dustbins should be distributed to help reduce the local population of the animals, and that building codes should be changed to limit the places where raccoons can shelter. A plan to trap, innoculate and sterilise the creatures should also be considered, in the organisation's view.

"Rabies promotes hysteria," a THS spokesman said. "We know that if the strain ever reaches this area, we would have to kill raccoons we want to be prepared."

Chile may postpone loan application

BY MARY HELEN SPOONER IN SANTIAGO

CHILE MAY seek a postponement of the vote scheduled December 15 on its application for a third \$250m structural adjustment loan (SAL) from the World Bank if approval of the credit by other member countries appears uncertain.

A vote on a structural adjustment loan in November of last year was approved by only 51 per cent, as member countries, led by the US, cast abstaining votes as a protest against Chile's human rights record under General Augusto Pinochet's 14-year-old military regime.

The loan, if approved, would be disbursed over the next two years and help Chile cover its current account deficit, which is running at about \$1bn. The country is not seeking new commercial loans for next year, but will save \$450m on interestpayments via an innovative retiming agreement reached last March which allows Chile to make such payments on an annual basis.

Government economists point out that the Chilean economy maynot suffer unduly, should the SAL loan be denied the country will earn over \$300m in additional export revenues, as the price of copper, which accounts for roughly 40 per cent of its exports, reaches its highest level since 1980.

At the same time, Chile's imports have also risen, to the point where the Central Bank is predicting a trade surplus of \$1bn this year, the same surplus the country achieved last year. And denial of the SAL loan might hurt Chile's financial image in the eyes of its commercial creditors, with whom the country plans to begin negotiations for new private credits for 1989 some time during the second half of next year.

Great Britain, which holds 5.7 per cent of the World Bank vote, is expected to approve the SAL loan for Chile. The US, which holds 20.1 per cent of the votes, abstained, along with several European and Latin American countries during last year's vote.

While there have been unconfirmed reports that the US is lobbying other World Bank members to block the Chile loan, it is unclear whether such a move could actually summon a large-enough group to halt the loan.

A block of Latin American countries nominally led by Venezuela, comprising 4.04 per cent of the vote, abstained lastyear, but may support Chile this year.

Latin American countries have an unspoken gentlemen's agreement to support each other's loan applications in multilateral lending institutions, and several member countries of the Venezuela block are also seeking World Bank credits in the coming months.

OVERSEAS NEWS

Israeli troops try to suppress riots in Gaza

BY ANDREW WHITLEY IN THE JABALIYA REFUGEE CAMP, ISRAELI-OCCUPIED GAZA STRIP

ISRAELI TROOPS yesterday battled to enforce an indefinite curfew imposed on this sprawling Palestinian refugee camp in turmoil over the violent deaths of three of its residents. Shooting broke out repeatedly as soldiers clashed with the angry protesters, causing dozens of casualties.

Heavily armed troops in jeeps and armoured half-tracks toured the huge slum camp – home to over 50,000 refugees from Israel – ordering residents back indoors through loudhailers. Individuals regarded as troublemakers were picked out for summary, on-the-spot punishment.

In nearby Gaza City, the worst day of rioting in recent memory was simultaneously taking place. Much of the city centre ressembled a battlefield, with youthful demonstrators erecting makeshift barricades and hurling stones, and the army replying with tear gas and volleys of shots.

What sparked off the trouble were the grisly deaths the previous afternoon of four Gazans, crushed by an army truck at a military checkpoint while their car waited for its turn to pass through the controls. Seven others in the vehicle – packed with day labourers returning from Israel – were seriously injured, in an incident Palestinians said they were convinced was deliberate.

It followed the stabbing death of an Israeli civilian in Gaza City on Sunday. Tense at the best of times, over the past few months the overcrowded Gaza Strip has witnessed a sharp increase in the endemic Jewish-Arab violence.

A vitriolic war of words has meanwhile erupted between PrimeMinister Yitzhak Shamir and his Labour Alignment rival, Mr Shimon Peres, the doveish Foreign Minister, over the future of the Strip, captured from Egypt in 1967, and its 2,000 Jewish settlers. On Monday, Mr Peres – an advocate of self-rule in Gaza during his spell as Prime Minister to October 1986 – rejected right-wing calls to annex the territory and said that Israel should, instead, demilitarise the region. To this, Mr Shamir retorted: "Is the intention to leave Gaza to the terrorists?

Philippine army captures rebel colonel

BY RICHARD GOURLAY IN MANILA

PHILIPPINE soldiers yesterday captured the rebel colonel who led a failed coup against President Corazon Aquino in August, escaped capture and has been seen until recently by the Government as a constant threat.

Col Gregorio "Gringo" Honasan, was captured after a raid on a suburban apartment in Manila which is owned by a former secretary of Mr Juan Ponce Enrile, an opposition leader, while he was defence secretary. Mr Enrile was forced to resign his Cabinet post last November when he was linked to reports of a coup attempt allegedly to be led by officers closely associated with him, including Col Honasan.

The capture is a major feather in the Government's cap just four days before leaders of the six Asean countries meet in Manila for a summit meeting. Two bombs have exploded in the past two days in Manila, and one was defused, apparently planted by opponents of Mrs Aquino who want to disrupt the summit and embarass the Government. In a hand-written note to Philippine newspapers on Tuesday, Col Honasan denied reports that he or his group of renegade officers planned to disrupt the summit.

Last night Mr Enrile denied he had any knowledge of the rebel officer's activities but said he hoped Col Honasan's would get a fair trail.

In recent weeks when Col Honasan's previous popularity among fellow officers and soldiers appeared to be waning, Mrs Aquino had publicly refused to offer an amnesty deal for his surrender. More than 50 people died in the August 28 coup, mostly civilians, in what was the most serious of at least five coup attempts against Mrs Aquino since she came to power

The August coup triggered a Cabinet reshuffle – including the resignations of Vice President Salvador Laurel and Mr Jaime Ongpin, the Finance Minister, who committed suicide this week.

Report attacks critic of Gandhi

By John Elliott in New Delhi

MR VISHWANATH PRATAP SINGH, India's former Finance Minister and now a significant opposition figure, was criticised last night in an official report for allowing a US detective agency called Fairfax to be hired a year ago by his ministry in a way which was "not consistent with the country's security".

The report also says that the Mr Nusli Wadia, chairman of Bombay Dyeing, a textiles company together with a researcher of the Indian Express newspaper, were responsible for persuading Finance Ministry officials to choose the agency. It alleges they did this in order to help Bombay Dyeing's battles against a rival company, Reliance Industries, which was being investigated by the ministry.

The commission report, prepared by two judges and published last night, deals with the first of a series of controversies which lay behind the eventual resignation in May of Mr Singh, former finance and defence minister, and then to mounting political criticism of Mr Rajiv Gandhi, the Prime Minister.

A year ago Mr Singh was pursuing a relentless campaign against corruption. He gave a top Finance Ministry civil servant approval to hire a foreign detective agency to look into dealings in the US of Reliance and other companies because India's diplomatic and customs officials did not have the necessary time or expertise.

Mr Singh is now a leading critic of the Government and, as expected, last night's 293-page report appears as an attempt to discredit him. It continually attacks his ministerial style and the decisions of his officials.

This attack is in line with an apparent decision by Mr Gandhi to try to crush his critics – the Indian Express was shut till recently by a two month strike in which Mr Gandhi's Congress I Party was involved.

The report suggests that Mr Wadia financed the Fairfax work and that the agency was "loyal to some other quarters hostile to the Government of India". This is a reference to the US Central Intelligence Agency. A Fairfax executive admitted that it hired ex-CIA staff and shared information with US federal government agencies.

Canberra plans May budget

By Chris Sherwell in Sydney

AUSTRALIA'S already tight fiscal stance is to be reinforced in the wake of the share market collapse with a "mini-budget" next May, Mr Paul Keating, the federal Treasurer, indicated yesterday.

The decision underlines government perceptions that Australia's principal economic problems – its swollen current account deficit and expanding external debt – continue to demand firm action.

The current account deficit was projected to fall to a high 5 per cent of gross domestic product during the current year in last September's budget.

But the share market collapse has made that optimistic. Meanwhile, stabilisation of the external debt (now more than 40 per cent of GDP in gross terms) remains some years off.

In his brief announcement yesterday, Mr Keating said the government had decided to make a "statement of initial budget measures" in May to take effect in fiscal year 1988-89, which begins in July.

The announcement said the decision was made "in order to ensure that fiscal policy next year is of an appropriately firm stance."

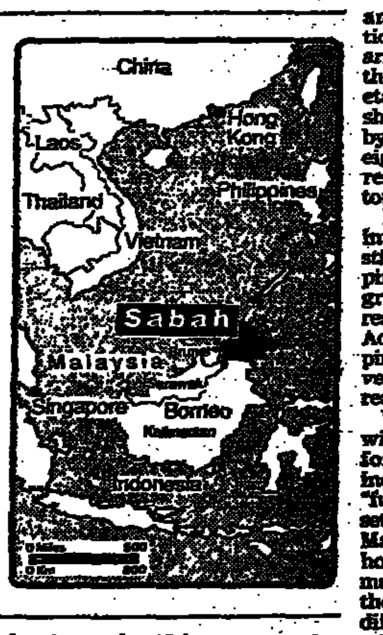
It means the Government will follow the same pattern as it did this year, producing a "mini-budget" of spending measures in May and a fuller version, presumably including tax changes, some three months later.

Richard Gourlay reports that Manila's claim to Sabah may soon be renounced

How to settle a sultan's legacy

PRESIDENT Corazón Aquino appears to have persuaded the Philippines Congress to drop a territorial claim on the north-east Malaysian state of Sabah which has dogged relations with Kuala Lumpur for over 20 years.

The Sultan of Brunei gave Sabah to the Sultan of Sulu for ridding his seas of piracy in the 18th century. Now, over 200 years later, Mrs Aquino hopes that in return for Sabah, Kuala Lumpur will help to defeat the Moslem rebels who operate from the enclave.



Under pressure from Mrs Aquino, who wants agreement before the summit of Asean (Association of South-East Asian Nations) leaders on Dec 13, foreign affairs committees of the two houses have agreed to drop the claim, in legislation that will redefine Philippine territory.

The territorial claim has a convoluted and colourful history, involving the gift of Sabah from one Sultan to another, as a reward for ridding his seas of pirates.

If resistance in the chambers of the two Congressional houses can be overcome, as now seems likely, it would be an unexpected bonus for Malaysia at the Asean summit and a personal victory for Mrs Aquino.

A warmer relationship between two close neighbours is the main prize. But there is an additional hope in the Philippines that Kuala Lumpur will be more willing to help Manila deal with the various Moslem rebel groups in the south who have been fighting for independence, on and off, for 15 years.

The two countries are now preparing to sign treaties covering "Friendship and Cooperation" and "Joint border Patrol and Crossing".

At the height of the war in the early 1970s, in which more than 50,000 people died, Sabah was used by the biggest rebel group, the Moro National Liberation Front (MNLF), as a shipment route for arms and for training camps.

Kuala Lumpur always denied supporting the rebels. But relations between the two countries were so strained by the Sabah claim and Filipino hostility that there was little incentive for Malaysia to impede the rebels.

The low point of relations came in 1968 when President Ferdinand Marcos trained Moslems to infiltrate Sabah and destabilise the government. When the plot was exposed and Kuala Lumpur alerted, over 50 of the team were massacred on the island of Jabidah off the Philippine coast, presumably in a macabre effort to bury the evidence.

Sabah's coastline is no further from the Philippine island of Tawi-Tawi than England is from France. Today traders cross between the two countries with as little regard for international boundaries as ever, while the pirates in their ancient "kumpits", but now powered by Volvo engines, continue to ply their trade.

It was these pirates who indirectly triggered the Sabah claim. In the early 18th century, the Sultan of Brunei gave Sabah to the Sultan of Sulu in return for ridding his seas of pirates. Sulu is now Philippine territory. It remained largely unexploited until 1887 when the British North Borneo Company won the right to exploit it "in perpetuity" for the sum of $500,000 a year.

Britain took over rule of Sabah after the Japanese occupation in the Second World War and added it – with Sarawak – to Malaya in 1963, to form the Federation of Malaysia. The Philippines and the heirs of the original Sultan of Sulu claimed that Britain had no right to do this. But after conducting consultations throughout Sabah, a UN commission the same year said that the inhabitants wanted to be Malaysian.

The latest Philippine constitution, approved earlier this year, is deliberately vague over Sabah and avoids the complex questions of international law that arise. It was, however, generally thought that while the proprietary rights of the Sultan of Sulu should be honoured - and are - by Malaysia, the claim for sovereignty was really an awkward remnant of the area's untidy history.

Nevertheless, "baseline" laws introduced by President Marcos still claim Sabah for the Philippines. Diplomats say that Congressional opposition is the result of ruffled feathers – Mrs Aquino sprang the idea of dropping the claim on Congress at very short notice – rather than real objections to the bill.

What genuine resistance exists will probably be appeased by the foreign relations committees' inclusion of a clause offering to "fully assist" the Sultan's heirs settle their property rights with Malaysia, they say. There are, however, at least ten "heirs" and many more are springing from the woodwork – but that is a different problem.

Better relations between the Philippines and Malaysia would be welcome in themselves. But it is probably unrealistic to think Kuala Lumpur can do much to assist Manila's counter-insurgency campaign, apart from by making a token increase in naval patrols.

At most, these would make shipment of arms to the MNLF more difficult but it certainly would not stop them. In any case Malaysia, with the other Moslem countries of Asean, rejects the MNLF's demand for independence and supports, instead, autonomy for the Moslem areas, which is currently on offer from Manila.

There are however, over 100,000 Filipino refugees in Sabah, who fled the Philippines at the height of the war in the 1970's and are straining Sabah's resources. They are only likely to return once there is peace.

Kampuchean peace talks were brokered by India

By Robin Pauley, Asia Editor, in New Delhi

THE nine-year deadlock between Prince Norodom Sihanouk, the exiled Kampuchean leader, and the Soviet-backed regime of Hun Sen was broken earlier this month by India, which has spent most of this year acting as a secret intermediary.

The two leaders signed a joint statement at Fere-en-Tardenois in France on Friday agreeing that the civil war in Kampuchea should be ended by political means. They will meet again next month.

Since the announcement that the two would meet there has been speculation about how the meeting was arranged and about the attitude of the Chinese, who have supported Prince Sihanouk since the Soviet-backed invasion of Kampuchea by Vietnam.

The Indians, who have good relations with both Moscow and Prince Sihanouk, apparently first started mediation attempts in February in New York. Since then the Indonesians have also become involved. But India remained the key middleman, keeping the US and Moscow fully informed. Prince Sihanouk briefed Peking regularly.

Although the Chinese were initially not enthusiastic at the idea of Prince Sihanouk treating directly with Hun Sen they eventually accepted that it might not do any harm although they doubted whether it would lead to an acceptable solution.

Prince Sihanouk headed a tripartite coalition of anti-Hun Sen guerrilla groups until he took a one-year sabbatical earlier this year to give himself the freedom to explore various pathways towards a peaceful political settlement.

WORLD TRADE NEWS

Tokyo aims to prevent EC car row

BY WILLIAM DAWKINS IN BRUSSELS

SENIOR Japanese trade officials are due to meet their European Community counterparts in Brussels next month to try to defuse growing tensions over car exports.

They are facing a deadlock over EC demands for Japan to accept a long-term accord to limit its car exports to the Community from now until 1992, the deadline member-states have set for the ending of barriers to free trade within the EC.

The prospect of a car trade row has sent shudders of alarm through the chief executives of the EC's top 13 car and truck makers, who staged at emergency meeting in Paris earlier this week to discuss their response ahead of the January meeting.

European car makers are lobbying for a freeze in Japanese car exports at the 1985-1986 average of around 1m units until 1992 or even a few years after. That implies Japan would have to agree to cut back next year on the record 1.05m cars Commission experts estimate it will sell in the EC in 1987.

Those demands received a sharp rebuff when presented in Tokyo last week by Mr Willy De Clercq, External Trade Commissioner, and Mr Karl-Heinz Narjes, his colleague in charge of industry.

Mr Hajime Tamura, Tokyo's Minister for International Trade and Industry, told them he wished to stick to the present system of setting informal limits for car sales to the EC year by year. There was no chance of a longer-term accord, he said, until the Community provided clear evidence that it was making headway in dismantling trade restrictions in the car industry.

Mr Tamura said Japan was looking for a slight increase in shipments to the EC next year and was unable to accept the Commission's arguments for a decline.

Industry forecasts show that EC car demand will reach a peak of around 11m vehicles this year, but it is estimated to fall to 10.5m in 1988 and continue to decline the following year. A lower-than-expected economic growth rate and the side-effects of the stock market crash mean EC car demand is nearly saturated, Commission officials say. That means that even if Tokyo can be persuaded to accept a freeze on EC car sales, it would be guaranteed an increase in its current 10 per cent share of the Community's shrinking market.

The scope for concession from either side appears remote. Mr Narjes has said that stabilisation of Japan's motor vehicle exports to the EC "for a period of time...is clearly necessary for the achievement of the internal market".

Stabilisation would be conditional on the phasing-out of bilateral car import controls arranged with Japan by member-states such as Italy, France, the UK, Spain and Portugal.

The aim would be to give car makers the market stability to cope with the removal of internal EC trade barriers such as widely disparate rates of VAT on cars and different type-approval procedures.

Meanwhile, the Commission will continute to press Japan to reduce its own market barriers to EC cars until Community manufacturers have been allowed to boost their share of the Japanese car market from the present 2.8 per cent to 5 per cent.

Tokyo, however, is sticking to its demands that firm progress on the creation of a free EC car market must come before it agrees to any long-term restraint. This is the precise opposite of the Commission's position.

De Clercq: sharp rebuff in Tokyo

Talks on Airbus begin today

By Tim Dickson in Brussels

THE DISPUTE over US allegations of unfair pricing of the European Airbus is likely to be the key issue in three days of talks between the US and the European Commission, beginning in Brussels today.

The discussions are expected to be low-key, with both sides anxious to build on the progress made at the meeting in London in October between Mr Clayton Yeutter, US Trade Representative, and trade ministers of the Airbus countries (the UK, France, Spain and West Germany) under the auspices of the Commission.

Senior officials will have a technical session today but the key talks are planned for tomorrow between Mr Yeutter and Mr Willy de Clercq, EC External Trade Commissioner. The issue is also certain to be debated at the EC-US annual Ministerial meeting on Saturday.

The Airbus row remains the prickliest transatlantic trade problem but Mr Alfred Kingon, US Ambassador to the EC, said yesterday that the two sides had refined their differences since the London talks, while a senior Commission official pointed out that the emphasis is on working out the technical aspects of a possible solution.

US denounces EC long-grain rice programme

BY WILLIAM DULLFORCE IN GENEVA

ANOTHER POTENTIAL trade row between the US and the European Community surfaced yesterday when the US denounced an EC programme to subsidise production of long-grain rice.

At a meeting of the General Agreement on Tariffs and Trade the US claimed the EC had broken the standstill commitment under which trade ministers undertook not to introduce new protective measures while the Uruguay Round was in progress.

The EC programme, introduced in September, aims to persuade rice-growers in EC Mediterranean states to switch from round-grain to the long-grain rice for which demand is growing in Europe. A subsidy of Ecu330 a hectare is being paid for the 1987/88 season.

Long-grain rice is imported by the EC from the US and suppliers such as Thailand and Pakistan. The US complained yesterday to the Uruguay Round surveillance body that by artificially stimulating domestic production the EC was cutting access for US rice exports to its markets.

The European defence that the programme was limited in scope, time and value - it is scheduled to last for three to five years - met with short shrift from other countries.

However, the EC evened the score by supporting a Brazilian complaint that the US was contravening the standstill commitment by raising tariffs on Brazilian exports and prohibiting imports from Brazil of some computer products.

Washington announced this punitive action last month after Brazil had refused import licences for software sold by Microsoft, a US company.

Brazil told the surveillance body yesterday that the US announcement was damaging its trade interests.

US measures aimed at causing a loss of $105m to Brazilian exports and sought to "destablise" sectors accounting for $700m in exports, Mr Jose Lima, the Brazilian delegate, said.

The US said Brazil's informatics policy had effectively embargoed imports from the US. The countermeasures - announced would not become effective until after public hearings in the US.

Robert Graham examines President de la Madrid's support for more open trading

Mexico adjusts to life under Gatt

MEXICO this week signed a $500m (£278m) World Bank loan to assist the country's trade liberalisation programme. This is the second such loan in 18 months and underlines the effort being made by Mexico to bring its trading policy into line with the General Agreement on Tariffs and Trade.

Mexico became the 92nd member of Gatt in July 1986 and both loans have been given on condition that it adjusts its trading policies.

Mexico long hesitated over joining Gatt, but it has since become an enthusiastic member. Gatt membership is being used by the administration of President Miguel de la Madrid as an important lever of economic policy to liberalise trade and shift Mexico away from import substitution towards a more export-orientated economy.

It has also become clear that Mexico sees Gatt as the best forum for discussing trade and related issues. Mexico's intentions were underlined by the tenor of discussions and the final communique of the Acapulco summit of eight Latin American countries at the end of last month. Fears of trade protectionism by the industrialised countries at a time when Latin American debtors desperately need to be assured of export outlets was one of the main preoccupations at Acapulco.

Yet another indication of Mexico's changed attitude towards Gatt was the October framework agreement on trade and investment with the US. This was originally conceived as a fall-back in case Mexico did not join Gatt, as the US accounts for 65 per cent of its total trade.

In the event the agreement went ahead as a back-up to Gatt membership. Mr Clayton Yeutter, the US Trade Representative, said at the time: "The agreement, coupled with Mexico's membership in the Gatt, will help our two countries resolve disputes, increase trade and work towards a strong future."

Mexico eventually accepted an eight-year adjustment period for conforming to all the Gatt requirements (instead of the 11 years sought at the outset). This was because when it began the liberalisation of its foreign trade in mid-1985, it was heavily dependent on oil and an antiquated system of tariffs and quantitive import restrictions to promote industrial growth.

In July 1985 most import-licensing requirements under the import tariff schedule were eliminated. Licensing thereafter applied to only 11 per cent (909) of all items – equivalent to 37 per cent of total imports. Last year more licensing requirements were abolished, so that only 30 per cent of total imports were covered. By the end of this year, the authorities expect approximately 5 per cent of all items on the tariff schedule will be subject to licensing – equivalent to some $3bn.

President de la Madrid: using Gatt as an economic lever

The licensing requirements cover food and agricultural products, the expanding and industrially strategic automobile industry, plus oil and petroleum products. Gatt has been informed that these are sectors of national interest subject to development programmes which will be protected. By contrast, the Government no longer restricts the import of capital goods (90 per cent of which are excluded from permits).

On tariffs, Mexico pledged to reduce its maximum rate to 30 per cent by November 1988. Officials maintain that tariff reductions are on course, as agreed with the World Bank. According to the trade policy programme agreed with the Bank, by November 1988 import tariffs will be at rates of 20 per cent, 25 per cent and 30 per cent for goods normally produced in Mexico (the percentage depending upon the degree of local manufacture). There will be a 10 per cent tariff for goods not produced in Mexico and a zero tariff for raw materials and basic consumer items.

Another area covered by Gatt concerns the reference prices often used to calculate import duties. These so-called official prices have been gradually deregulated. In early 1986 official prices applied to more than 980 tariff categories. By July this year only 53 categories remained and the authorities insist that by January 1988 official prices will have been phased out.

By eliminating the system of official prices, the Secretariat of Commerce and Industrial Development will move one step closer to the introduction of the harmonised tariff codification system, which is in the final stages of preparation.

The introduction of these trade liberalisation measures has run up at times against considerable opposition from sectors of business and industry, long used to a highly-protected domestic market and shy of an export orientation.

Nevertheless, a combination of domestic recession and the need to generate non-oil export earnings has acted as a powerful export catalyst. The oil and mining sector in 1985 accounted for almost 65 per cent of exports, but these have now dropped to below 40 per cent, mainly because of a sharp rise in manufacturing exports (principally from the growing automotive industry).

However, it is premature to judge the impact of loosening controls on imports. Although private sector imports in the first nine months of this year were 50 per cent up, overall the picture is static because of public sector spending curbs.

Bank of Mexico officials argue that while imports have not really begun to compete with domestic products – which often enjoy a monopolistic position – the threat of such competition is beginning to have a salutary effect.

Even so, the effect of import liberalisation on prices of domestically-produced goods is disappointing. The Government had been hoping that, by the last quarter, import liberalisation would be an important antidote to spiralling inflation. But this has yet to happen and inflation on an annualised basis is creeping over 140 per cent.

Cutting down on protectionism

BY PETER MONTAGNON, WORLD TRADE EDITOR

MEMBERS of the General Agreement on Tariffs and Trade should establish independent national agencies to foster public awareness of the domestic economic costs of trade protectionism, according to a new study by the London-based Trade Policy Research Centre.*

The study, prepared by a panel of experts under the chairmanship of Mr Olivier Long, former Gatt Director-General, argues that governments are hampered in their quest for free trade by national political systems that are biased in favour of protectionism.

Short-term political pressures ensure that public awareness is focussed on the problems facing specific industries rather than the well-being of the economy as a whole, it says.

"Measures tailored to the demands of particular interests tend to proliferate and to persist long after their original purpose has passed, as vested interests in their continuance develop both insides and outside government."

Such biased arrangements reinforce the conception of international trade negotiations as a process of improving access to foreign markets while preserving the protective status quo in the domestic market, it says.

The report notes that President Reagan's veto of the Jenkins Bill on textile imports in 1985 was made easier after a report from the Council of Economic Advisers said textile protection would cost consumers $14bn annually, but it says that no major countries with the exception of Australia and, latterly, New Zealand have domestic institutional means of systematically evaluating the impact of public assistance to specific industries.

Agreement to set up such machinery should be negotiated in the Uruguay round of trade liberalisation talks so that governments have an opportunity to consider the long term implications of their own trade policy decisions and so that the public at large can be informed of what is happening.

The review agencies should be purely advisory with no executive or judicial role. They should be politically independant and non-industry specific with a broad mandate to enquire into all forms of assistance to troubled industries, it says.

Its arguments develop a theme of the Leutwiler report on protectionism published by the Gatt in 1985 which urged governments to be more open about trade policy.

Public Scrutiny of Protection Olivier Long et al. pp 65. £5.00. Trade Policy Research Centre, 1 Gough Square, London EC4A 3DE.

Editorial Comment, Page 26

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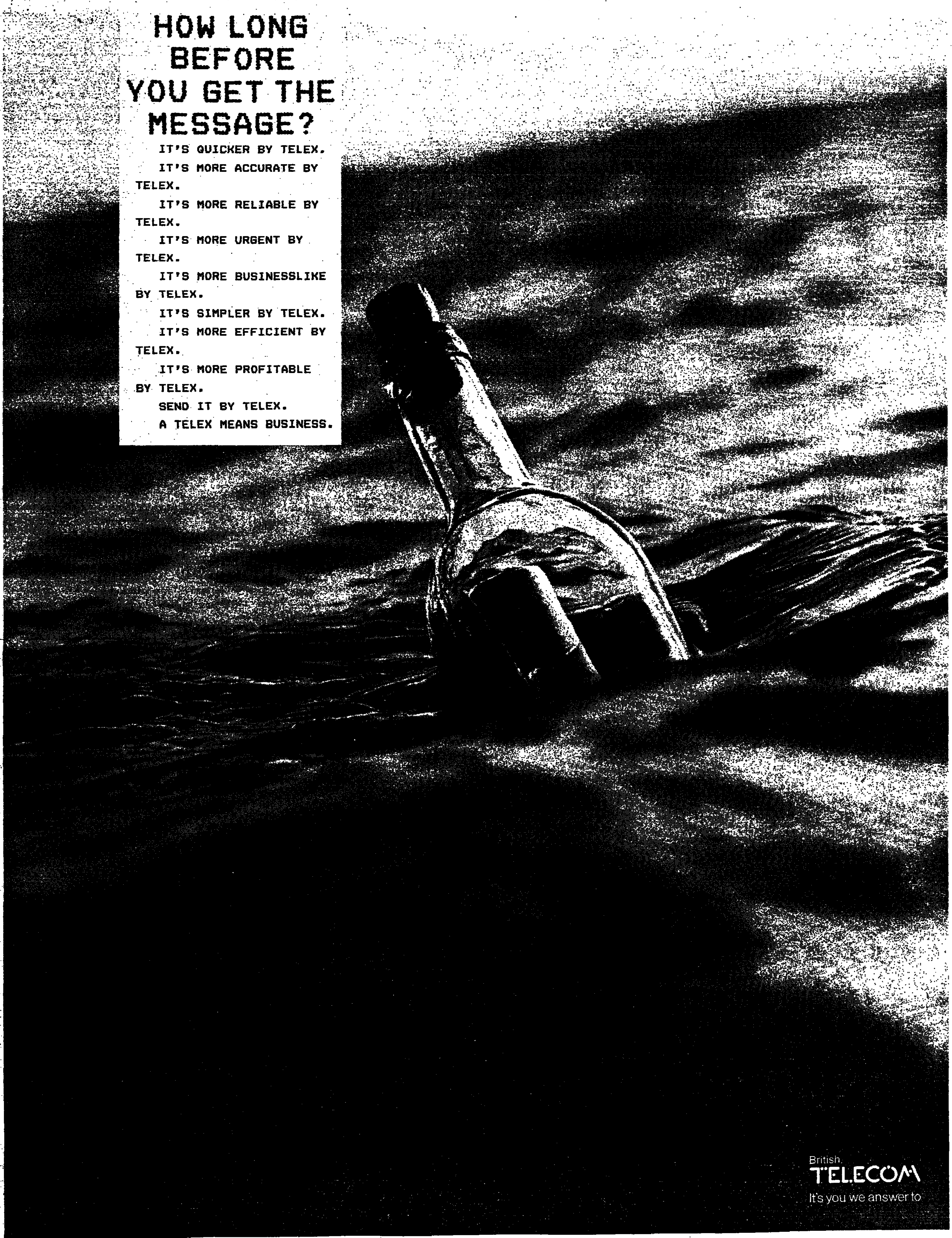
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John Lloyd on the issues under debate in the Church of England

Anti-liberal cause fuelled controversy


Dr Gareth Bennett (left) and Dr Robert Runcie

THE ANTI-LIBERAL cause has gained a notable martyr. The suicide of Dr Gareth Bennett, the Oxford theologian posthumously revealed on Tuesday to be the author of the Crockford's preface critical of the Archbishop of Canterbury, comes a few weeks before a new year – 1988 – which will see a flood of memoirs, celebrations and reviews of the year 20 years before widely seen as the climax of a radical and permissive decade.

In pre-empting it in the way he has, he has underscored a theme already popularised by Mr Norman Tebbit, the former Conservative Party chairman: that of the decay which that particular vintage of liberalism continues to insert into public, political and religious life.

For that, rather than the explicit attack on Dr Runcie, is the main thrust of a closely-argued essay of more than 12,000 words.

Dr Bennett's purpose was to represent the Church of England as led by a self-selecting, relatively ruthless elite of liberal bishops. "Men," as he puts it, "of liberal disposition with a moderately Catholic style which is not taken to the point of having firm principles" who have none the less created, since Dr Runcie was appointed in 1980, "a new kind of episcopate" composed increasingly of men of their ilk, to the "virtual exclusion of Anglo Catholics . . . and a serious under-representation of Evangelicals."

The charge could hardly be more serious. Dr Bennett asserts, elegantly if waspishly, that the liberals believe in nothing at all of any consequence; that they are ignorant of tradition and the canons it prescribes; and that "with a little procrastination and an application of pastoral sensitivity" they will re-mould the church, but "that there may be issues of fundamental principle at stake is not a notion that is readily understood."

It is the core charge made against liberalism – that it is an empty relativism, fearful of asserting authority because to do so would unmask it

He uses the Episcopal Church in the US – an offshoot of Anglicanism and nominally under the guidance of the Archbishop – as a warning of liberalism rampant. Almost wholly middle-class in membership, it was "thus a body which proved highly vulnerable to the rapid liberalisation of middle-class opinion in the 1960s and many of its younger clergy and seminarians were deeply affected by the radical ideology of the universities of that era. Within a short time the Episcopal Church acquired a strong party for liberal causes, among them a movement for the ordination of women."

The ordination of women is used by Dr Bennett throughout his preface as the touchstone of liberal advance, and of its propensity to divide the church – especially if, as he fears will be the case, an American woman bishop is presented as a *fait accompli* to the 1988 Lambeth Conference.

Dr Graham Leonard, the Bishop of London, has gone so far as to say that such a move would "dissolve the terms of communion." The best known lay member of the Synod, Mr John Selwyn Gummer, himself a former Conservative Party chairman and now Agriculture Minister, has put himself on this wing of opinion and has issued a qualified support of Dr Bennett's preface.

It is the broader attack on liberalism, rather than the particular and relatively brief thrust at Dr Runcie, which gives the preface its real importance beyond its present status as a cause *celebre* within an otherwise (to most) obscure set of arguments conducted over the body of a declining faith. Dr Bennett, to assist his point that the church is badly led, points to a dwindled regular congregation of a mere 1m:

The issue it raises is wholly one of our times: how far a relativist, rational liberalism which is generally more comfortable in a secular rather than a religious mode can survive the passing of the times which gave it birth.

Unwittingly or not, Dr Bennett struck chords which have also been struck by Conservative populists: notably, that an end to liberalism would be popular in the working class. In a closing discussion on the lack of black representation in the church, he notes that "the majority of white Anglicans are *not* racists; they are middle-class men and women who do not find it all that easy to understand or mix with working class people, whatever their colour . . . the differences are not so much ones of colour as of class and culture, and the real problem is to increase common understanding."

The legacy of the preface, and of Dr Bennett's suicide, is likely to be a complex one. Before he died, many bishops of differing views rushed to Dr Runcie's support. Now, voices are heard to say that his death, and the focus on the personal attack, should not mean the loss of the wider message.

A rough consensus seems to be emerging that liberalism may be on shaky ground; that the Anglo-Catholics and the evangelicals, who have both made gains on the Synod, need a fairer representation in the dioceses. The immediate loser may be Dr John Habgood, the Archbishop of York, who might have hoped reasonably to have succeeded Dr Runcie but whose even more pronounced liberalism (he is, according to Dr Bennett, the "leading theological relativist among the bishops") may now be thrown into too sharp relief.

Dr Bennett disposes of any belief that the Prime Minister has attempted to meddle in this nest of liberalism by claiming that the (liberal) recommendations of the Crown Appointments Commission (of which he was a protesting member) were almost always rubber-stamped by Downing Street, "even in the face of constant complaints that the system was producing an unbalanced episcopate." Dr Bennett's last complaint, attested by his death, may finally have the effect he desires.

Tax burden on industry 'doubled since 1981'

By Philip Stephens, Economics Correspondent

THE SHARE of the total tax receipts paid by British industry has risen by by 50 per cent since the present government took office in 1979 and has doubled since 1981, according to the latest official statistics.

Mr Norman Lamont, Financial Secretary to the Treasury, has said in a Commons written answer that corporation tax receipts are estimated at £13.5bn in the 1986-87 financial year ended last March.

That was equivalent to 11.3 per cent of the Government's total tax receipts and compared to figures of £4.6bn (7.6 per cent) in 1979-80 and £4.9bn (5.7 per cent) in 1981-82.

The most rapid growth in industry's tax bill has come since 1984, when Mr Lawson began the phasing out capital allowances.

The move was balanced by a reduction in the corporation tax rate and at the time the Government said the combination of changes was likely to be neutral.

It now seems clear, however, that the impact has been to raise companies' relative tax burden.

More enterprising students may win grant for university

BY MICHAEL DIXON, EDUCATION CORRESPONDENT

THE GOVERNMENT is offering universities £1m inducements to change their courses and teaching styles to make students more commercially enterprising and equip them with skills needed in the economy.

The special grants of up to £1m over five years, which will also be available to polytechnics and other degree-awarding colleges throughout Britain, are the mainspring of a £100m scheme announced in London yesterday by Mr Norman Fowler, Employment Secretary, and Mr Robert Jackson, Minister for Higher Education.

Mr Fowler said: "The aim is to increase dramatically the number of highly educated people with enterprise. The issue is urgent."

Under the scheme, which will be run through the Manpower Services Commission, higher educational institutions will have to bid competitively for the grants by putting forward their own five-year plans for sharpening students' commercial senses and abilities. A new advisory committee headed by Sir James Munn, the commission's chairman, will decide which bids succeed.

To qualify for a grant, an institution will have to show that its plan is supported by promises from industry and commerce to contribute money, equipment or staff secondments. The Government hopes that such contributions will add a further £25m to the £100m being provided

It will be up to individual universities, polytechnics and colleges to decide the details of their proposals. But the plans will be expected to include four key features:

- Changes to curricula and teaching styles to encourage the generation and implementation of new ideas, preferably to suit a broader range of students than those attracted by present academically specialised degree courses.
- A requirement that part of the study time should be spent outside the institution on investigative projects in organisations.
- Arrangements for students to have experience in industry and commerce.
- Provision for students to develop skills useful in the economy.

North Sea tax system 'deters investment'

BY LUCY KELLAWAY

THE TAX system for companies operating in the North Sea is a disincentive to new investment, is arbitary in its uneven treatment of different fields, discriminates against new companies, and gives unnecessarily generous relief against the cost of abandoning existing oil fields.

These are some of the conclusions of a critical report published yesterday by the Institute for Fiscal Studies, an independent research body.

The report shows how the existing tax system makes investment in marginal fields uneconomic for new companies without tax shelter and discourages incremental investment in fields paying petroleum revenue tax (PRT). It may encourage companies to close fields too soon.

The institute suggests two ways in which some of these distortions could be removed. Royalty payments would be abolished, incremental investments subjected to a 10 per cent allowance, and companies without a PRT liability against which to offset expenditure would be given a grant equivalent to the existing tax relief. Under the second proposal capital allowances would be reintroduced at 100 per cent, royalties would be removed, and the PRT cross-field allowance would become unnecessary.

However, the institute argues that the piecemeal changes would not address the fundamental weakness in the present system brought about by the interplay been royalties and corporation tax. Instead it proposes a radical package in which all three existing taxes be replaced by a single cash flow tax, which for the sake of simplicity would apply only to new fields.

Prince Edward launches charity investment race

BY FIONA THOMPSON

PRINCE EDWARD lit an Olympic torch to launch the second Holborn Great Investment Race in the City yesterday.

Nine investment teams are competing against time, each other and the bear market to see who can get the greatest return on a £55,000 stake – all in the aid of charity.

The teams of stockbrokers and fund managers will manage their portfolios for a year, investing in the shares, unit trusts, traded options, currency deposits or futures of their choice. Prudential Holborn, the race sponsor, is providing each team's £55,000 starting fund in the form of an interest-free loan.

At the end of the year, all the profits after repayment of the original stake will be distributed by Charity Projects to more than 50 small charities for the homeless, the disabled and drug and alcohol victims.

Last year's contest, with six teams investing £85,000 each, raised profits of £779,856 – though it did race alongside a roaring bull market, ending just 26 days short of Black Monday on October 19.

Prince Edward said: "The real reason for the crash was because the race had ended. We hope this one will rekindle interest in the stock market."

Four of the teams who took part last year are competing again. They are Bell Lawrie, Edinburgh stockbroker; Nomura, Japanese securities group; Hoare Govett, stockbroker, and Prudential Portfolio Managers.

The five newcomers are Capital House, investment management arm of The Royal Bank of Scotland; Cazenove, City stockbroker; Daiwa Europe, another Japanese securities house; Enskilda Securities, Skandinavska Enskilda's investment banking business; and Henderson Administration, independent fund manager.

Standard Life to offer free-standing AVCs

BY ERIC SHORT

STANDARD LIFE Assurance Company, one of Britain's largest mutual life companies, has changed its original decision and will be offering free-standing Additional Voluntary Contributions (AVCs) to employees in company pension schemes as from January 4, 1988.

The concept of an employee being able to make his own arrangements to pay extra contributions to boost his company pension outside of the company in-house AVC arrangement was introduced in this year's Budget.

However, the Inland Revenue has imposed such complex adminstration procedures to prevent overfunding that many life companies have ignored this development. Only a handful of life companies launched free-standing AVC plans on the starting date of October 26.

Standard Life is a major provider of company pension schemes – mainly smaller company insured schemes. It plans to remain a principal player in the new pensions environment and sees free-standing AVCs as a means for employees to opt out of the State Earnings-Related Pensions Scheme from next April.

Standard Life has also received Inland Revenue approval for changes to its self-employed pension contract that will enable the company to participate in the expected sales boom in these contracts before they are replaced next July by personal pensions.

Iseki may build plant

BY NICK GARNETT

ISEKI, the Japanese tractor maker, has been looking at a number of possible sites in the UK to build an assembly plant for small tractors. The sites have mainly been in assisted areas in the north of England and the Midlands.

Mr Yoshikata Ishii, general manager for Iseki Europe, said yesterday that the company had not yet decided whether it would go ahead with a European production facility.

If it did, a number of other countries were possible candidates, including France, Spain and Italy.

Mr Ishii said the company would almost certainly not be interested in assembling farm tractors for which its sales in Europe are negligible.

It would only consider producing small tractors under 40hp which are used mainly by horticulturalists and local authorities.

Iseki is Japan's third largest tractor maker after Kubota and Yanmar. It produces tractors up to 105hp but most of its sales are small tractors.

The company said it sold between 5,000 and 8,000 tractors in Europe last year, all but a few between 16hp and 40hp. Japanese producers dominate this sector of the market.

Mr Ishii said: "Basically we have to have market outlets and volume big enough to support local production."

UK NEWS

Eli Lilly offers around £3m in Opren settlement

BY RAYMOND HUGHES AND PETER MARSH

ELI LILLY, the US manufacturer of the banned arthritis drug Opren, was fiercely criticised yesterday over the terms of its offer to settle damages claims by the bulk of the drug's alleged victims in the UK.

The company has offered a global sum - believed to be in the region of £2.7m, plus about another £3m towards the legal costs - to about 1,200 claimants.

Mr Des Wilson, director of Citizen Action (Opren Campaign), one of the UK claimants' support groups, described the offer as "miserly and miserable."

Lilly, he said, had taken advantage of the limitations of the British legal system to make the minimum offer it believed it could get away with.

The offer, which is being recommended by solicitors for the claimants, was announced, without any financial details, in the High Court yesterday by Mr Justice Hirst, the judge who has been dealing with the Opren cases.

He said that Lilly made its offer without admitting liability. One term of the offer was that neither the global sum, nor individual payments, were to be made public.

After the hearing, critics of the offer compared it unfavourably with compensation paid by Lilly to claimants in the US, which has been as high as $6m to one person.

Ms Kathleen Grasham, a leader of one of the claimants' groups, said that individuals would be likely to receive "only microscopic crumbs" from the proposed settlement. She said the Opren sufferers had been put in a "despicable" position.

Mr Jack Ashley, an MP who has campaigned on behalf of the Opren sufferers, said the sum proposed "seemed small". He said he would press for Lilly to disclose full details of the planned deal with the Opren victims.

A Lilly spokesman said after the court announcement that the proposed settlement was "acceptable" to the company. He said that one of the reasons the affair had dragged on for five years – the time since the drug was withdrawn from the UK – was because of the difficulty of obtaining full medical details from claimants.

In the legal actions, companies in the Eli Lilly group are alleged to have been negligent in the testing and marketing of the drug and the British Government in licensing it.

Mr Justice Hirst said that the Government, which denied liability, had not taken part in the settlement negotiations but had agreed that, if the litigation was settled, it would not claim any legal costs.

The judge said that Lilly made its offer without admitting liability or that Opren had caused injuries. He said that, although the claimants' solicitors were recommending acceptance, it would be for individual claimants to decide whether to accept or reject the payments offered to them, the size of which would depend on each individual's injuries.

Payments would be subject to claimants' undertaking to acknowledge Lilly's non-acceptance of liability and not to disclose the financial terms or compaign against Lilly in relation to Opren.

The 250 to 300 claimants who failed to register their claims before the time limit expired were not included in the offer. They would either be able to withdraw their claims without having to pay costs, or continue on their own, Mr Justice Hirst said.

Foreign investment in Britain 'creates healthy competition'

BY TERRY DODSWORTH, INDUSTRIAL EDITOR

FOREIGN investment in the UK is an important factor in forcing British companies to become more internationally competitive, Mr John Butcher, Industry Minister, said yesterday.

Speaking at the announcement of a new survey of foreign investors' views on Britain, Mr Butcher underlined the Government's belief that the encouragement of investment from overseas goes far beyond the creation of jobs.

Foreign companies, he said, generated competition which was healthy for British industry. Competition, he added, "is a key ingredient in an efficient economy and encourages enterprise, more efficient production methods, better management, higher standards of design and quicker responsiveness to changing consumer demands."

Mr Butcher, who also stressed the UK Government's commitment to the free flow of funds out of Britain, revealed that UK companies have invested significantly more overseas than foreign groups have spent in Britain.

Total British direct foreign investment in the past 10 years had increased to £91bn from about £24bn, while foreign investment in the UK was up to £49bn from almost £14bn in the same period. "These figures strongly reflect the international character of UK industry and the economy," he said.

Mr Butcher strongly defended the type of overseas investment being attracted to Britain, saying that it was "not true" that many foreign plants were simple assembly operations which added little value in the UK and used only a limited amount of domestic component supplies.

About half of the 322 companies which took part in the survey had research and development activities in Britain, he said.

In response to the frequently-voiced criticism that foreign companies are given assistance to expand in the UK when British companies are receiving no help, he said that the type of aid available to foreigners was open to all other companies. Regional assistance, he added, would be continued to keep Britain on an equal footing with its partners in the European Community.

According to the bureau, Britain is the leading investment base in Europe for companies moving into the region from outside. About 36 per cent of all US investment in the European Community is located in the UK, and 30 per cent of total Japanese investment in the whole of Western Europe.

Civil Service wants more ethnic minority workers

BY JIMMY BURNS, LABOUR STAFF

THE GOVERNMENT yesterday launched a campaign to boost the numbers of blacks and Asians in the Civil Service, particularly in higher grades.

The campaign will include greater use of advertising aimed at ethnic minorities, improved contacts with educational establishments and closer monitoring of government departments, but will stop short of introducing quotas.

It follows publication yesterday of three reports from the Cabinet Office on the ethnic origins of recent recruits and longer-serving employees. These suggest shortcomings in the Goverment's declared aim of taking a lead in promoting equal opportunities and improving race relations.

The most significant report was based on several regional surveys including London and the South East.

The surveys, which covered about 320,000 or 65 per cent of the non-industrial Civil Service, found that 5.6 per cent of the respondents saw themselves as being a member of an ethnic minority.

This compares favourably with an economically active population in the survey areas of between 5.6 per cent and 8.3 per cent.

The surveys found, however, that there was a "clear division" between two key government departments - Ministry of Defence and Home Office - where relatively little progress has been made in promoting equal opportunities and other departments with higher proportions of ethnic minority respondents.

Separate surveys found a poor representation of qualified blacks and Asians working in government departments and that only 1 per cent of middle-ranking and above civil servant posts were occupied by members of ethnic minorities.

Miss Sue Collins, head of the Equal Opportunities Division at the Cabinet Office, said yesterday: "There is no room for complacency. But we now have the facts. They will provide the base line from which we can measure progress in the years ahead."

The Council of Civil Servants Unions said last night that it welcomed the publication of the reports but said that it was concerned that progress in government departments was "patchy".

One report published yesterday concluded that there was a need to promote a better image of careers in the Civil Service, "emphasising their attractions and diversity, in a more lively, welcoming and credible style."

Steel warns of hold-up facing merged party

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

MR DAVID STEEL, the Liberal leader, yesterday warned there was a "serious possibility" that next year's launch of any new party created with the Social Democrats might have to be postponed by a month because joint negotiators had still to resolve several outstanding matters.

Mr Steel, who was speaking after more than 10 hours of joint negotiations which carried on into the early hours yesterday morning, said that the time for agreeing on all outstanding issues was rapidly running out. He stressed there was no lack of goodwill between the two sides and the problem was one of meeting the timetable set down for the talks.

To allow the SDP enough time to consult with its membership and provide sufficient notice for the party to call its special January conference, the draft package must be finished by this weekend. The Liberals have an easier deadline.

Mr Steel warned that if the two parties' conferences, which will decide whether to put the merger proposals to separate ballots, were held up, then the launch of the new party – timed for March – might come uncomfortably close to the May local elections.

His remarks were being interpreted as a last-minute attempt to inject fresh urgency into the discussions, rather than any conviction on the Liberal leader's part that a postponed launch was inevitable. He stressed that he had not abandoned hope of reaching final agreement on a merger package by this weekend.

Mr Steel has in recent weeks made no secret of his impatience with the pace of the merger talks and the readiness of some participants to discuss every item until it is exhausted.

He said he thought the signing of an INF treaty in Washington had proved slightly easier to achieve than agreement on a merger package and added: "The whole area of discussion is fascinating for us, but as far as the electorate is concerned the whole thing is a complete turnoff."

Although the bulk of the constitutional package was finalised last week, it is understood that one of the remaining sticking points involves the mechanism for making amendments to the initial constitution and in particular the time which should elapse before alterations can be considered.

There are also problems with the composition of the preamble to accompany the constitution. Work on this has only just started and some Liberals apparently believe it is too wedded to the principles of consumerism.

In addition, the two sides have to decide on a name for their creation. While agreement on an official title, incorporating the Liberal and Social Democrat names is not seen as a problem, there has been no agreement on the "shorthand" title by which the party will be known. Mr Steel hinted that the use of initials – as in the case of the SDP – could offer the answer.

The joint negotiators are expected to remain in more or less continuous session until the weekend in an attempt to finalise the package. The Liberal parliamentary party met last night to exmaine ways of trying to speed up the backlog of negotiations.

Action over Britoil urged

BY IVOR OWEN

MR JOHN SMITH, the shadow Chancellor, last night called on the Government to use its "golden share" to block any attempt by BP to take over Britoil.

He said there was no public interest in concentrating British North Sea oil interests in BP, especially when foreign shareholders such as Kuwait were acquiring such a large interest in BP.

"If the Government does not use the golden share, the device will be seen to have been a sham protection of the national interest," he said.

He also backed demands, led earlier in the Commons by Mr Bruce Millan, a former Labour Scottish Secretary, for government action to ensure that Britoil's headquarters remained in Scotland.

Tory MPs say poll tax could harm party

By Peter Riddell, Political Editor

CONSERVATIVE backbench critics of the community charge or poll tax yesterday warned that if the proposal was "forced through in its present form it will do great damage to the Conservative Party and to local government".

The warning is in a memorandum by Sir Philip Goodhart, the MP for Beckenham, and signed by nine other members of the One Nation Group, a mainstream Tory discussion body, though it is not an official publication of the group.

In a parallel move, some of the signatories and other Tory MPs have tabled a motion instructing the standing committee on the Local Government Finance Bill to consider "the desirability of making the community charge more fair by banding the rate of charge in proportion to ability to pay".

These MPs hope the instruction will be voted on at the end of the second reading debate on Thursday next week, but it is not yet clear whether the instruction will be called

The Tory critics of the charge claim to have the support of at least 50 MPs, including a number who will vote for the second reading of the bill. Government whips are confident that only about 20 Tory MPs will rebel on the main second reading vote.

Sir Philip's memorandum argues that there is still time for radical amendment to introduce the necessary element of fairness. He says that the poorer family will be paying nearly four times as much, proportionately, as the richer family.

The signatories include six former ministers. Apart from Sir Philip himself, they include Sir Ian Gilmour, Sir Barney Hayhoe, Mr Jim Lester, Mr Timothy Raison and Sir George Young.

Among other Tory critics of the proposal are Mr Bill Benyon, Mr Tim Rathbone, Sir Brandon Rhys Williams and Mr Peter Temple-Morris, and, signing the instruction, Mr Robin Squire, Mr Charles Morrison and Mr Anthony Beaumont-Dark.

Tom Lynch on a bill which aims to protect genuine Scotch in international markets

A measure that could prove hard to swallow

A PARLIAMENTARY campaign is about to begin to give Scotch whisky the protection currently enjoyed in the international marketplace by cognac and champagne.

The Scotch Whisky Bill, which has its second reading debate in the Commons tomorrow, aims to provide an internationally acceptable definition of Scotch, helping the industry to combat the sale of spirit mixtures in the Third World. These mixtures, described as Scotch, rarely include more than a top dressing of the real stuff.

However, the bill will not have a smooth passage through parliament. Although there is general support for its main objective, there is determined opposition to the clause granting powers to ministers to specify a minimum strength for Scotch.

The bill's sponsor is Mr Bill Walker, the Conservative MP for Tayside North. A teetotaller and vociferous critic of Guinness during its takeovers of Arthur Bell and Distillers, he nevertheless chose the issue when he won second place in the ballot for private members' bills.

He did so, he says, because Scotch is Scotland's biggest business, enjoying overseas sales of £1bn a year and making a £1bn contribution to the British exchequer. It also provides jobs in sparsely populated areas – there are three distilleries in his largely rural constituency.

Mr Walker describes the measure as "long overdue" because unscrupulous traders are tempted to milk the reputation of a quality product. It would be "an act of lunacy" not to protect it.

The bill, supported by MPs from all parties in Scotland, sets out a definition of Scotch – giving ministers the power to vary it by laying an order before parliament – and makes it illegal to produce or mature in Scotland any whisky not conforming to the definition. It will also be illegal to sell as Scotch any spirit falling outside the definition or at an alcoholic strength lower than the Government shall eventually determine.

The Scotch Whisky Association says a domestic legal definition of Scotch will ease its task of upholding the reputation of Scotch in courts around the world.

However, Mr George Foulkes, the Labour MP for Carrick, Cumnock and Doon Valley, has promised to fight the bill at every stage in the Commons as long as it contains the clause empowering ministers to fix a minimum strength of whisky, and Lord Graham of Edmonton, a Labour peer, is standing by to do the same in the Lords.

This clause is also viewed with suspicion by free-market advocates who regard producers of low-strength whiskies as just the sort of entrepreneurs the Government ought to be encouraging.

The wording of the bill allows its backers to argue that, because everyone accepts that the line on strength has to be drawn somewhere, the time to fight the battle for low-strength brands is much later, when the Government is preparing to set a figure.

This cuts no ice with Mr Foulkes, in whose constituency some successful whiskies are bottled and blended at 37.2 per cent – a strength which he says is becoming generally accepted in the world whisky market.

He would support the bill if it set 37.2 per cent as the minimum strength, but fears that leaving it to ministers will result in the big producers successfully putting on the pressure for their favoured 40 per cent – the strength of all the main brands.

The Scotch Whisky Association supports the bill and hopes it will enable the Government to apply a tighter definition to Scotch if the forthcoming European Community definition of whisky turns out to allow different distillation methods, shorter maturation or lower strength.

As usual when domestic producers fight their corner, the spectre of Japan is raised discreetly. The industry fears that the Japanese are preparing for an assault on the British market.

Japanese trade experts are offended when some of the bill's backers spotlight their country as a producer of bogus Scotch – they say Japan makes good whisky, which they are proud to label and sell as Japanese. It is sold only in Harrods and specialist Japanese shops, with no plans to go further.

The Japanese express sympathy for the bill, arguing that giving protection to Scotch, the leader in the world whisky market, would help all whisky producers.

Callaghan echoes PM's line

BY TOM LYNCH

THE INSISTENCE by Mrs Margaret Thatcher, the Prime Minister, that the Soviet Union must bring its conventional forces in Europe into line with Nato's before there could be further cuts in nuclear forces in Europe was echoed in the Lords yesterday by **Lord Callaghan of Cardiff**, her Labour predecessor.

"The faster we reduce our reliance on nuclear weapons, the more disavantageous becomes the disparity between the Warsaw Pact conventional forces and our own," he told peers in his maiden speech, during a debate on disarmament and East-West relations.

He did not believe the disparity was so great as to cause instability, but he urged the European members of Nato to improve their co-operation and to focus their attention on the conventional field.

"A reduction in conventional forces in the East would tell us more about how much the peace initiative really means changes in Soviet defence policy than will a 50 per cent cut at the strategic arms level."

The hoped-for cuts in US and Soviet strategic arms would be worthwhile because they would create additional confidence throughout the world, while still leaving "far more than is needed as a deterrent, which is now the only purpose that nuclear arms can serve".

In another maiden speech, **Lord Pym**, who as Mr Francis Pym was in turn Defence Secretary and Foreign Secretary in Mrs Thatcher's first term, warned that the INF agreement and the summit should not "create excessive expectations in the mind of Western public opinion".

Hopes for a more peaceful world, less spending on arms and "a more relaxed state of security" were not justified in current circumstances.

The Soviet strategy of denuclearising Europe would neutralise the West's deterrent unless there was parity in conventional forces and the Soviet Union scrapped its chemical weapons. The INF accord followed by a strategic arms deal would create a "severe test" by raising political expectations.

For the Government, **Lord Glenarthur** said enough nuclear weapons had been removed from Europe for the time being, and it was important not to "make Europe safe for conventional war".

He did not rule out "adjustments to our deterrent consistent with the INF agreement", but sought to assure peers that this need not mean escalation. "Managing deterrence is not just a matter of more of the same. Existing systems can be made more effective if better deployed and less vulnerable."

Lawson foresees only slight downturn

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

MR NIGEL LAWSON, the Chancellor, yesterday voiced growing confidence that the British economy would escape the stock markets' crash, with only a slight downturn in the pace of economic growth.

He told the Commons' Treasury and Civil Service committee, Mr Lawson that all the evidence available since his Autumn Statement last month suggested that a world recession was "less likely"

He repeated in blunt terms, however, his previous warnings that the US might have to raise its interest rates to ensure that it attracted sufficient foreign capital to finance its current account and budget deficits.

The Chancellor gave a guarded response to questions from MPs about the Government's policy on the pound.

Speaker acknowledges concern over BBC gag

BY IVOR OWEN

ANXIETY CAUSED by the Government's action in securing the imposition of legal restraints on the reporting of parliament by the BBC was acknowledged by the Speaker (Mr Bernard Weatherill) in the Commons last night.

Mr John Morris, shadow Attorney General, claimed that the Government had finally realised it had "encroached far too far" on the liberties of the Commons by initiating proceedings in the courts yesterday to ease the ban which had prevented the BBC reporting references made to current and former members of the security services.

He said the BBC had not reported the reference made on Monday to Mr Peter Wright, the former MI5 agent and author of the book Spycatcher, because it had feared being held to be in contempt of court had it done so.

Mr Morris warned that, with the right hand of the Government apparently not knowing what the left hand was doing, there was a danger of the House being "muzzled".

Mr John Wakeham, Leader of the House, confirmed that the steps taken by the Government in the High Court earlier in the day had made it clear that the BBC could publish fair and accurate reports of proceedings in either House of Parliament (where publication was not prohibited by that House).

The BBC could also publish any facts concerning the security and intelligence services, including the identity of present or former members already made public with the authority of the Crown, until any further order was made by the court.

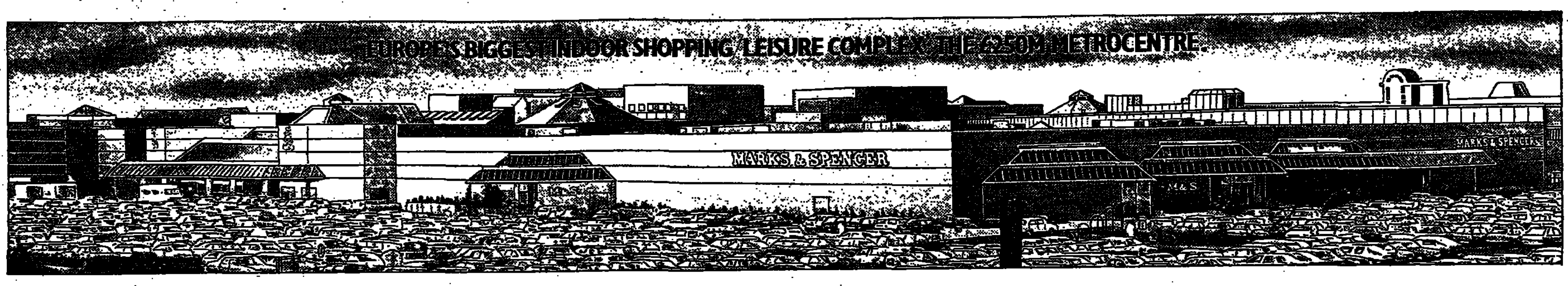
Mr Tony Banks (Lab, Newham NW) asked the Speaker to make it clear that the BBC was at total liberty to actually broadcast anything said in the House if it so wished subject only to its own editorial judgment and not an injunction.

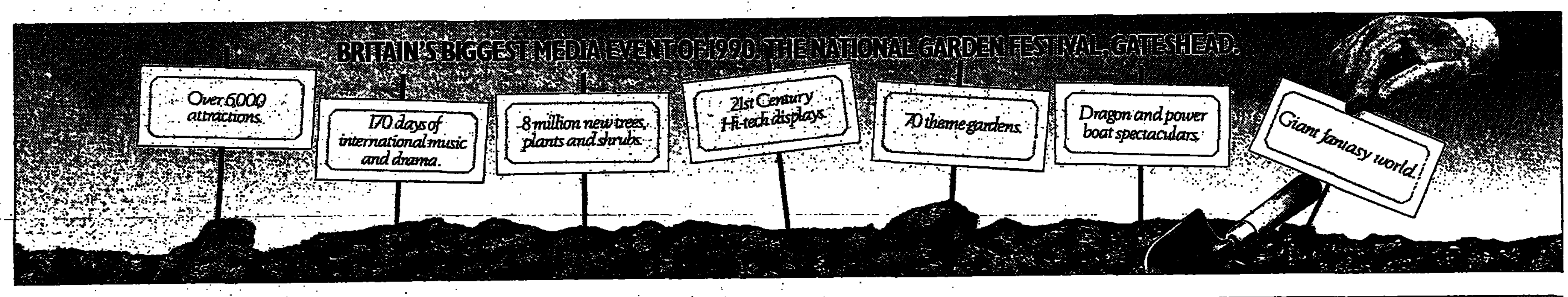
The Speaker confirmed that the "privileges of this House are absolute and there can be no question about that".

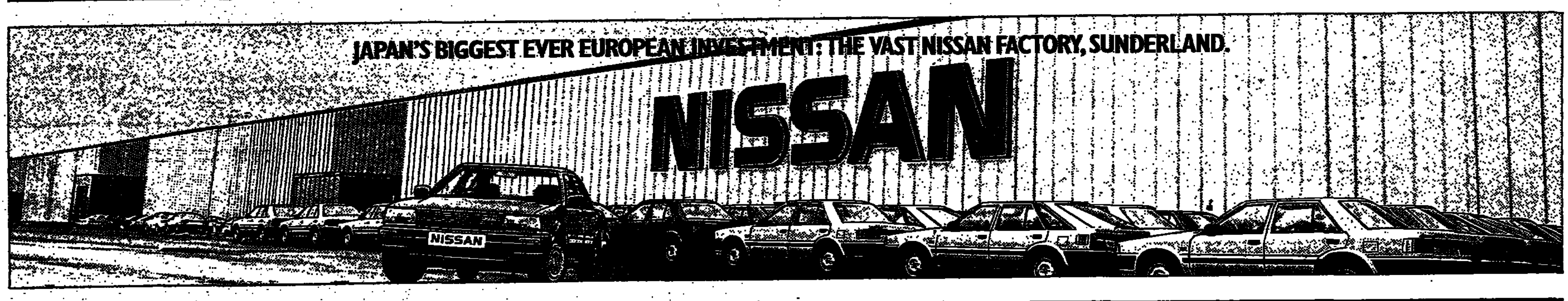
Labour MPs are planning to make further efforts today to secure an explanation from Mrs Margaret Thatcher, the Prime Minister, for the raid carried out earlier this year on the Scottish headquarters of the BBC in Glasgow about a programme on the Zircon project.

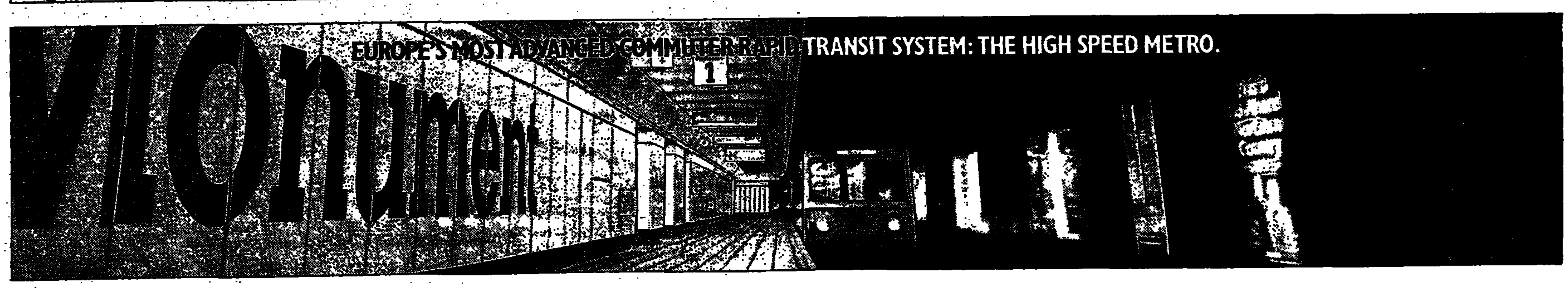
When **Mr Tam Dalyell** (Lab, Linlithgow) asked what had been the "supposedly reasonable grounds" for ejecting BBC executives from their beds at 3pm Lord James replied that such a question went to the root of intelligence matters, which were the responsibility of others.

EVERY NEW DEVELOPMENT CORPORATION NEEDS A LITTLE ENCOURAGEMENT.









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Artificial leg industry faces monopoly probe

BY DAVID CHURCHILL

THE SUPPLY of artificial legs in the UK is to be investigated by the Monopolies and Mergers Commission, it was announced yesterday.

The investigation will be carried out at the request of the Office of Fair Trading, which said yesterday it wanted the commission to complete its work within 12 months.

The OFT's decision to refer the artifical leg industry, which is estimated to be worth some £37m a year, comes after three main developments in the past year.

First, a review by Professor Ian McColl of Guy's Hospital in London found "widespread deficiences" in the supply of artificial limbs in the UK and called for a new central authority to be established to supervise the industry.

Secondly, the leading manufacturer of artificial limbs - J E Hanger - was involved in an eight-month dispute with its workforce which ended in May.

Thirdly, the OFT is understood to have received complaints about the inability of new companies to supply the market because of the dominance of the leading companies.

The three largest companies supplying about three-quarters of the market are all ultimately owned by BTR, the industrial conglomerate, through its Itermed subsidiary. They are J E Hanger, Vessa, and Robert Kellie and Son in Scotland. BTR was not able to comment on the commission's investigation.

Sir Gordon Borrie, director general of fair trading, said he was asking the commission to investigate the supply of artifical legs "because of a number of serious concerns about competition in this market."

He added: "The market may not be very large but to those who need artificial lower limbs it is important that their requirements are met as efficiently and cheaply as possible."

Artificial limbs are supplied to amputees and other disabled people through Artificial Limb and Appliance Centres (Alacs). In England, Wales and Northern Ireland, they are operated by the Disablement Services Authority, set up in July following the McColl report.

In Scotland the Alacs are run by the Scottish Home and Health Department (SHHD).

Artificial limbs are provided and maintained by commercial companies which supply them to the DSA and SHHD.

About 62,000 people have artificial limbs in the UK, of which 80 per cent have artificial lower limbs.

More defections by tax inspectors reported

BY RICHARD WATERS

DEFECTIONS BY Inland Revenue tax inspectors have climbed back towards their previous level after significant reductions last year, states the Revenue's annual report, published yesterday.

The rate of resignations – nearly 6 per cent compared with just under 3 per cent a year earlier – threatens to undermine the crackdown on defaulters, which has brought impressive results in recent years, the Revenue says.

The Revenue's annual report discloses that it collected £57.2bn in 1986-87, up 3 per cent on the previous year's £55.5bn.

Its costs rose by nearly 10 per cent to £1bn, giving the department a cost/yield ratio of 1.76 per cent – a deterioration on last year's 1.64 per cent and the worst reported for five years.

This was due to a "sharp reduction" in receipts from petroleum revenue tax following the fall in oil prices last year, the Revenue says. Its tax offices and investigation units improved their performance over the year, although this could be reversed by a staff shortage. Tax offices collected £13 for every £1 they spent, almost twice as much as in the previous year.

However, the Revenue warns that the continuing loss of trained inspectors means that it may not be possible to maintain these high yields.

Its efforts to crack down on moonlighters (people with a second, undeclared source of income) and "ghosts" (who do not appear in Revenue records) could also be hampered.

A campaign against these evaders, launched in 1984, is planned to employ 790 staff by next April – 410 more than it had recruited in April this year. Boosting the staff will place further strains on scarce resources.

City firm cuts jobs in response to dull market

By Clive Wolman

SHEPPARDS, the stockbroking firm, yesterday announced that it was making 60 of its staff redundant. It is the first such initiative in response to the slump of share trading volumes over the last three weeks.

Mr Paul Mayers, managing director, said the firm, which remains primarily a traditional agency stockbroker and does not make markets in shares, had not lost any money during the stock market crash in late October. However, commission revenues had fallen sharply as a result of the lower trading volumes – itself a consequence of the despondency engendered by the crash – and the lower share prices on which commissions are levied as a percentage.

Other securities firms such as Warburg Securities and Citicorp Scrimgeour Vickers have reported a shift in commission business away from middle-ranking firms such as Sheppards to the market leaders in the weeks since the crash. But Mr Mayers said his figures showed no loss of market share since October 19.

He added that Sheppards had gained a substantial number of small investors as clients over the last year and now had about 10,000. However, the firm appears to have suffered from poor quality of research which was reflected in the Extel survey of institutional investors in September.

Staff numbers were increased from about 300 to 400 following acquisition of the former Sheppards and Chase partnership by BAII in 1986. BAII is a Paris-based bank owned by a consortium of 40 institutions of which about half are Arab.

The redundancies include several former Sheppards and Chase partners and other senior analysts and salesmen. Some research teams, covering the retail, mining and chemicals sectors, are being disbanded. Mr Mayers said everyone had been given generous redundancy terms.

He added that further cuts would be necessary only if the stock market and trading volumes fell much further. If the market revived, the firm would resume recruiting.

Peter Marsh examines the background to the claims against the makers of Opren

Drugs makers hope for no more bitter pills

THERE WILL be a sigh of relief among makers of drugs and the licensing authorities if the proposed terms for settling the Opren damages claims mark the beginning of the end of this affair. There is a widespread feeling that the reputation of both groups has been tarnished by the five-year legal battle that users of the medication have waged against Eli Lilly, the US company which developed the product.

Opren was hailed as a wonder cure for sufferers of arthritis when it was launched in the UK in 1980, two years before the drug's market debut in the US. Just three months after the US launch, Britain's Department of Health and Social Security banned the drug, a move quickly followed by Lilly's removal of the product from world markets.

The drug has been linked to a range of side-effects, ranging from undue sensitivity of the skin to sunlight to kidney problems. In Britain, Opren is thought to have been at least a factor in up to 100 deaths and 4,000 cases of illness, mostly in the elderly.

Lilly has come under sustained attack from campaigners, led in recent months by the redoubtable Mr Des Wilson, who have pressed for what they believe to be adequate compensation for Opren victims. The claimants allege that Lilly was guilty of failing to ensure the drug was safe, a defect compounded by what the critics say was overenthusiastic marketing of the product. Lilly made its settlement offer without admitting liability or that the drug had caused injuries.

While Lilly has taken the brunt of the onslaught, the Opren case has also embarrassed the drugs industry as a whole.

UK drugs companies, which have been highly successful in recent years in terms both of technological innovation and global marketing, believe the Opren case has led many observers to associate the business with undesirable practices.

The Association of the British Pharmaceutical Industry said that it did not believe Lilly had necessarily been negligent but it would be glad when the affair was over.

Inevitably, the Opren saga, a drugs mishap which has created a level of publicity matched only by the Thalidomide tragedy of the 1960s, has thrown the spotlight on the mechanisms for monitoring side-effects both before and after medications go on sale.

There is an inescapable tension between the need to get products quickly on to the market and the time it takes for a government licensing authority to discover whether a new formulation both works as advertised and is safe. In Britain, the authority is the medicines division of the DHSS, which is advised by a group of medical experts, the Committee on Safety of Medicines.

The medicines division receives about 1,200 requests for product licences a year, including both new drugs and existing formulations for which a pharmaceutical company seeks a novel application. It can take up to two years of analysis and discussions, during which civil servants pore over as many as 100 bulky volumes of medical data, for the division to hand out a licence.

Drug makers, while not wishing to argue with the general principle of ensuring medications are safe, are anxious to cut some of the paperwork involved in licensing as a way to reduce the total of 10 years which it can take to bring a new product from the laboratory to the market.

In the case of Opren, claimants have argued that both the DHSS and the Committee on Safety of Medicines failed to do their job properly in screening the drug for side-effects.

The DHSS said yesterday that, despite the offer by Lilly to settle the dispute, it could not comment on this issue. But Dr John Evans, a retired deputy chief medical officer at the department who is conducting a government inquiry into licensing procedures, said it would be a mistake to assume that cutting the time for licensing would automatically lead to less discussion of safety issues.

Other observers have made a wider criticism about the lack of information provided to outsiders by drugs makers and the regulatory authorities during the licensing process.

Dr Andrew Herxheimer, editor of Drug and Therapeutics Bulletin, a medical newsletter published by the Consumers' Association, yesterday attacked the "inbuilt secrecy" involved in licensing new drugs. By keeping both the public and doctors ill-informed, this secrecy added to possible problems over side effects.

The Opren case has highlighted the requirement by drugs companies to keep records of possible ill-effects in patients after formulations receive a licence and are marketed, according to Mr Steve Jolley, managing director of DLB Systems, a Cambridge computer company. Mr Jolley, whose company specialises in equipment to process data for drugs concerns about such problems, said the affair "had been a contributory factor" in strong demand for his products in recent years.

Ridley sets rate limits for councils

By Richard Evans

MR NICHOLAS RIDLEY, Environment Secretary, yesterday set provisional rate limits for the 17 local authorities designated for rate-capping in 1988-89 and increased the expenditure level for Tower Hamlets by £2m.

Tower Hamlets and Southwark, both inner London boroughs with big social problems, applied for a redetermination of rate-capping levels, but only Tower Hamlets was successful. Its expenditure levels will be increased to £126m next year and in return the council will have to report regularly to the Environment Department on measures taken to improve efficiency.

Southwark's expenditure level remains at £134m and all other expenditure levels for the rate-capped authorities, announced provisionally in July, remain the same. They will be confirmed by Commons Order before the end of February.

The implied change in the local rate for the 17 authorities compared with 1987-88 shows an average reduction of just over 9 per cent.

The rate changes vary from cuts of 43.5 per cent in the London borough of Ealing and 27.8 per cent in Middlesbrough, to increases of 11.6 per cent in Tower Hamlets and 1.2 per cent in Liverpool.

Ford builds AC cars plant

BY JOHN GRIFFITHS

FORD IS spending £5m on a production plant for AC Cars, the specialist sports car company in which it took a 50.96 per cent stake for £1.3m in October.

Construction of the 90,000 sq ft plant has begun at a site near Byfleet, Surrey, Ford said yesterday. It is on the Brooklands Trading Estate, which occupies part of the former motor racing circuit.

The plant is expected to be completed in the middle of next year. It will produce all future AC models and a replica of the AC Cobra sports car, made by Autokraft, which is to continue as a separate company under AC Cars' managing director, Mr Brian Angliss.

Ford refused to comment yesterday on the plant's potential capacity, on when production might start, or on which model would be produced, apart from the Cobra.

AC Cars, which has not produced any cars commercially for several years, is developing a 140mph, four-wheel-drive, two-seater sports car which revives the AC Ace name from the 1960s. It was shown in prototype form on Ford's stand at the Birmingham motor show last year and incorporates many Ford components. It is expected that a car based on this model will be made at Byfleet.

Ford said the new facility will have a research and development function. This will be complementary to similar functions at Aston Martin Lagonda, the Newport Pagnell-based luxury car maker in which Ford took a majority stake, of 75 per cent, in September; and to Ford's much more extensive research and development establishment at Dunton, Essex.

Ford stressed that Aston Martin production will remain separate from that of AC.

Technology director for Midland

By Richard Waters

MIDLAND BANK has created the position on its main board of director of information technology. It is believed to be the first big clearing bank to take this step, which reflects the growing importance of technology to all aspects of its business.

Mr Gene Lockhart, 38, joined the bank at the beginning of this year as chief executive, information technology.

Mr Lockhart may already have saved Midland millions. A review he undertook completely reversed the the bank's plans on developing its computer systems, said a Midland official yesterday.

Change to terrorism act urged

BY ALAN PIKE, SOCIAL AFFAIRS CORRESPONDENT

THE PREVENTION of Terrorism Act's core features should be translated into permanent legislation when existing temporary provisions expire in March 1989, the Government is being urged.

Lord Colville, in a wide-ranging review of the act carried out for the Home Office, says he accepts that there is a continuing need for legislation against terrorism. The essential core controls should no longer be subject to annual renewal, although a system of annual reviews could ensure that they were being operated "commensurately with the level of the current threat."

One of Lord Colville's recommendations is abolition of the Government's existing powers to place exclusion orders on people travelling between Great Britain and Northern Ireland if they are believed to be involved in terrorism. Lord Colville acknowledges that police forces are "ardent supporters of exclusion orders" and the Government made it clear immediately yesterday that they would remain in force.

Mr Douglas Hogg, Under-Secretary at the Home Office, told the Commons that Mr Douglas Hurd, Home Secretary, stood by a previous decision that it would be unwise to discontinue the exclusion powers. He said the Government would take full account of views expressed in Parliament and elsewhere when considering Lord Colville's other recommendations.

The original Prevention of Terrorism Act was introduced by the then Labour Government in the wake of the 1974 Birmingham pub bombings. Its provisions are annually renewable and it has been subject to three wide-scale reviews like the one carried out by Lord Colville.

A central theme of Lord Colville's report is that the particular resentment felt by Irish people about port controls against terrorism might be reduced if such controls were more generally applied. He points out that the Channel Tunnel will present "significant and difficult problems" for control of terrorism which need to be considered.

Detention of people suspected of terrorist offences, says Lord Colville, should be subject to the same safeguards as those applying to people held under the ordinary criminal law.

He says the present act is subject to much confusion, with many criticisms of the fact that there are few convictions under it. "The act is intended primarily to prevent terrorism, and where acts of terrorism have been committed, to help to bring those responsible before the courts to face whatever charges are appropriate. It is basically a deterrent, something very hard to prove or disprove."

Review of the Operation of the Prevention of Terrorism (Temporary Provisions) Act 1984. HMSO. £6.80.

Kettering factory creates 200 jobs

ABOUT 200 jobs are to be created by C and K switches of Kettering, Northants, as a result of a three-year expansion programme for a new range of switches.

The company, part of the privately-owned C and K Components group of the US, currently employs 380 people in Kettering and expects to increase this number to 500.

Celltech share offer raises over £40m

CELLTECH, Britain's leading independent biotechnology company, has raised more than the £40m minimum which it had set for its international share placing. The offer closed yesterday but the final subscription level will not be known for several days.

Colin Amery profiles Riba's director general

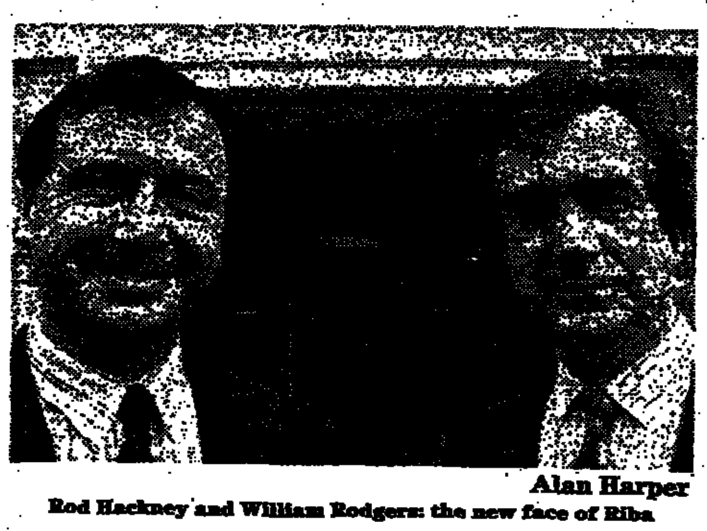
Architecture's new man upstaged

AT HIS first press conference yesterday as the new director general of the Royal Institute of British Architects (Riba), Mr William Rodgers was decidedly overshadowed by the institute's voluble president, Mr Rod Hackney.

Mr Rodgers, the former Social Democratic politician, took office on December 1, the day the Prince of Wales chose to attack the inadequacies of the environmental professions.

Mr Rodgers, disposing quickly of inevitable questions about his own reaction to the highly critical speech, said he agreed with the Prince that much modern architecture was unsympathetic and second-rate and that it was not enough simply to apply commercial standards to the commissioning of new buildings.

However, the new head of the architectural bureaucracy felt that "we cannot build for the future by recreating the past."



Alan Harper

Rod Hackney and William Rodgers: the new face of Riba

Mr Rodgers' job is a new one at Riba – the £50,000-a-year post was created as a result of an inquiry into the institute's affairs by Hay Management Consultants. The Hay group has to date published two reports on the management and structure of the institute and has just been asked by Riba's council to examine in a third report the question of improvements to the profession's regional organisation.

Members of architecture's governing body had long felt that the institute was badly administered and in poor financial shape. There has also long been a feeling that architects have to improve both their public image and their relationship with Government.

The recent election of Mr Hackney, a promoter of community architecture, to the post of president was aimed at making the profession more responsive to people's needs.

Mr Rodgers, a former Labour cabinet minister and one of the co-founders of the SDP, was a surprising choice for the mainly administrative post of director general. He said yesterday that he had given up politics to take the job because he felt strongly that urban regeneration had to be top of the national agenda in the next few years. He said he hoped by changing Riba from within to make an impact on the nation's environmental problems.

It was Mr Hackney, however, who called at yesterday's press conference for the idea of a national urban renewal agency to be taken seriously by the Government. Mr Rodgers supported this by calling for a minister of cabinet status with executive powers to be appointed to the post of minister for the inner cities. Mr Hackney then put forward the idea of a form of treasury bond, or a new bond issue on the City money market, to help finance inner-city renewal.

It was Mr Hackney too who called for more "horizontal co-operation" between the seven government ministries involved in the inner-city renewal programme. Mr Rodgers confined himself to general approval of the role of the urban development corporations.

On the question of raising architectural standards, Mr Rodgers echoed the Prince of Wales's recent plea for a reform of the planning system. Mr Rodgers said he did not feel that "warring groups of local politicians" were necessarily the best people to take aesthetic or environmental decisions.

He proved himself to be very much a man of the middle way in questions of architectural taste. His own leanings, he said, could best be described as ecumenical and eclectic and in architecture as in other things he saw himself as a moderate.

As a former politician Mr Rodgers will have to adapt his personal style to that of a man who is being paid to administer a profession. Mr Hackney stole practically all of his limelight yesterday – in spite of the fact that part of the new director general's job description is to raise Riba's public profile.

With an open-ended contract Mr Rodgers may well have less publicity-conscious presidents to deal with in future. For the moment, he has said he needs two years to get to grips with the architectural profession – it may well take him longer to forget that at heart he is still a politician.

Independent TV producers break off ITV talks

BY RAYMOND SNODDY

BRITAIN'S INDEPENDENT television producers yesterday formally broke off negotiations with the ITV companies over access to 25 per cent of the ITV network.

Ms Sophie Balhachet, chairman of the Independent Programme Producers' Association, yesterday accused the ITV companies of prevarication, filibustering and "failing to negotiate in any meaningful way."

Mrs Thatcher, Prime Minister; Mr Douglas Hurd, Home Secretary; and Lord Young, Trade and Industry Secretary, have been informed about the breakdown in negotiations on a key plank of government policy for reforming the broadcasting system.

Mr Hurd has always made it clear that if voluntary agreements could not be reached he would legislate to make sure that independent producers gained access to 25 per cent of the four national television channels.

Mr Paul Styles, director of the association, said the independents would press for legislation on 25 per cent access when existing ITV franchises ran out at the end of 1989 and before the agreed three-year extension began.

"There is no way we are going to give up. We will press for legislation to implement 25 per cent by the end of the decade," Mr Styles said.

The talks broke down because the ITV Association, which represents the 16 commercial television companies, insisted that each company should be free to negotiate its own deals with independent producers subject only to broad guidelines.

IPPA wanted a nationally agreed framework, a set scale of production fees – the independent producers' profit – and a share in foreign distribution rights.

IPPA will issue its own guidelines to its more than 400 members and ask for a formal tendering process when negotiating large commissions with ITV companies.

The ITV Association has been expecting the formal breakdown of talks and ITV companies have been pushing ahead with individual deals with independents.

Last week the ITV Association claimed that £42m of independent production for ITV was in the pipeline.

Now IPPA is looking at ways of applying political pressure to the ITV companies which are expected to have advertising revenues of about £1.4bn this year.

IPPA is considering backing suggestions that some of the larger ITV franchises should be broken up to give Britain a more locally-based commercial television system.

Court eases ban on BBC spying reports

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

THE BLANKET ban which has prevented the BBC referring to security service operations or to the service's past and present members was eased slightly yesterday by the High Court.

After a private hearing, lasting just over an hour, Mr Justice Owen deferred until Wednesday his decision on the BBC's application to discharge an injunction stopping the broadcast of the first part of a Radio 4 series on the service.

The ban on My Country Right or Wrong, which includes interviews with former members of the security service, remains in force.

However, the judge approved variations to the injunction which had been offered by Sir Patrick Mayhew QC, Attorney-General, and accepted by the BBC.

The variations will allow fair and accurate reports of references to the security service made in open court proceedings in England and Wales, or in Parliament – provided, in the latter case, that publication is not prohibited by the House of Commons or the House of Lords.

The ban will now not prevent the BBC mentioning any facts about the security and intelligence services, including the identities of present or former members, "already made public with the authority of the Crown."

After the court hearing Mr John Wilson, BBC controller of editorial policy, said the variations were some improvement in the situation. He refused to be drawn on their practical effect on the BBC.

The original injunction restrained the BBC from "broadcasting, or causing or permitting to be broadcast, as part of (My Country Right or Wrong) . . . or in any other way whatsoever, any interviews with, or information derived from, current or former members of the security and intelligence services of the UK relating to any aspect of the work of the said services, including their identity as current or former members thereof."

It remains to be seen what weight Mr Justice Owen will place on the view of Rear-Admiral William Higgins, secretary of the D-notice Committee, which advises the media on national security matters, that the banned first part of the series, which was to have been broadcast last Friday, appeared not to pose any threat to national security.

Wrangle 'prevents care of up to 18,000 patients'

BY ALAN PIKE, SOCIAL AFFAIRS CORRESPONDENT

A LEISURELY argument between two Whitehall departments has for years prevented the treatment of up to 18,000 patients a year on National Health Service waiting lists, the Commons public accounts committee said yesterday.

The committee makes its claim in a strongly-worded and critical report about the finance and management of the Ministry of Defence's armed service hospitals.

There are 19 service hospitals – nine in the UK and 10 overseas – and, during peacetime, they need large numbers of civilian patients to provide staff with adequate professional experience and training. During 1985, 62 per cent of admissions to the UK service hospitals were civilian NHS patients.

However, it would require another 18,000 patients a year to raise the service hospitals' bed occupancy to a target level of 75 per cent. And, says the committee, the MoD and the Department of Health and Social Security have been trying "for many years" to reach agreement on which department should pay for the treatment of additional NHS patients in service hospitals.

The DHSS took the view that, since the service hospitals needed NHS patients, they should be financed by the MoD. But the MoD's view was that it was already providing a substantial subsidy to the NHS and could not make further defence funds available to meet what it believed was primarily a DHSS responsibility.

The committee says: "We think it is deplorable that a wrangle within Whitehall over who should bear what must only be a marginal extra cost should have been allowed to proceed at such a leisurely pace that it has delayed for many years the fuller use of expensive service hospital resources and the treatment of possibly an extra 18,000 patients a year from NHS waiting lists."

Although the Treasury says it has been pressing for a solution to the problem since 1984, the committee was told as recently as last month that there was still no agreement between the two departments. It calls on the Treasury to ensure that a satisfactory settlement is "firmly in place" by next March.

Ninth Report from the Committee of Public Accounts 1987-98, Ministry of Defence: Service Hospitals, HMSO, £3.90.

R-R repairs engine fault

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

AIRLINES worldwide using Rolls-Royce RB-211-535 engines in Boeing 757 airliners are making modifications to the fuel pipe system to correct leakages arising from chafing of part of the piping.

The problem arose earlier this year and was swiftly referred to Rolls-Royce, where engineers have already completed modified parts, now being made and supplied to the airlines for installation during normal maintenance at the company's expense.

When the problem arose, Rolls-Royce informed the US Federal Aviation Administration and the UK Civil Aviation Authority, which have requested airlines to make the modifications. Other authorities worldwide are following suit. In all, 15 operators are involved, with more than 100 twin-engined Boeing 757s covering more than 200 engines, including spares.

The action has been taken following two occurrences of substantial in-flight fuel losses caused by chafing and cracking of a key piece of fuel pipe in the engine, and five other instances of fuel leakages due to fuel pipe abrasion. In no instance was there any fire risk.

The US airlines flying Boeing 757s with RB-211-535s have until March to comply with the FAA directive. Meanwhile, engines are being inspected daily.

Room for more US insider trading legislation

By Leo Herzel and Richard W. Shepro

THE RIDDLES of US Federal insider trading law have survived the recent Supreme Court judgment which, some people hoped, would bring greater certainty. The Court decided the celebrated insider trading criminal case against R. Foster Winans, the former Wall Street Journal reporter, but without resolving any of the puzzles in Federal insider trading law. This increases the probability that Congress will define insider trading by statute. In the meantime we can attempt to show what the law is now using variations of the Nathan Rothschild story of 1815 which demonstrated that knowledge can be turned into ready cash.

Winans was the author of the Wall Street Journal's influential "Heard on the Street" daily stock tip column. He and several confederates traded (contrary to Wall Street Journal rules) on the basis of their prior knowledge of what the column would say. Eventually a brokerage house's surveillance system caught the uncanny coincidence of deals that anticipated the columns and then the SEC investigated. Under pressure, the conspirators began to quarrel. Two of them confessed and soon the group faced criminal charges.

The Wall Street Journal case

The defendants were convicted of violating the antifraud provisions of the Securities Exchange Act of 1934 (Section 10(b) and SEC Rule 10b-5) and the Federal mail and wire fraud statutes; the Court of Appeals for the Second Circuit affirmed the convictions. The Supreme Court deadlocked 4 to 4 (an automatic affirmation and without opinions) on whether misappropriation of the Wall Street Journal's information was a criminal violation of the Federal securities laws. The Court also affirmed the mail and wire fraud counts 8 to 0.[1]

The case will not change the legal advice that American lawyers give to their clients. Even before the Supreme Court decision, no lawyer in his right mind would advise a client to trade on misappropriated confidential information. Nor has the *Winans* decision changed the chances of success in a civil suit for damages.

Following the decision, defence lawyers and prosecutors may change their behaviour a little in criminal cases. It is now quite clear that in these cases, the mail and wire fraud statutes and, by grace of the 4-4 Supreme Court deadlock, Rule 10b-5, apply to the misappropriation of information. When the Supreme Court decided to hear the *Winans* case there was some doubt among lawyers on these points. This was mainly because the Court's decision to review the case made it appear that reversal of all or part of the Second Circuit's decision was likely.[2]

The Court's deadlock on the Rule 10b-5 part of the case has shifted attention to Congress and increased the probability that the US will soon, for the first time, have a statute that defines insider trading. Until now Federal insider trading law has been developed by the SEC and the courts from the very general SEC antifraud Rule 10b-5.

The SEC proposed a specific statutory definition of insider trading on November 19.[3] In the past, the SEC has opposed definition of insider trading because it liked the inhibiting effect of vagueness on "bad" behaviour. The SEC, however, is a reluctant volunteer. Because of securities industry pressure, a bill with a similar definition had already been introduced in Congress.

Nathan Rothschild

An easy way to explain what is going on legally in the *Winans* case is to analyse a striking historical example, the impact which the Battle of Waterloo had on the London Stock Exchange on Sunday, June 18, 1850. On Tuesday morning, June 20, 1915, one man knew more than the rest - Nathan Rothschild learned of Napoleon's defeat some 40 hours before Wellington's official dispatches reached Downing Street.

Using this information, Nathan Rothschild bought British government bonds when everybody else was selling them and profited handsomely. What Rothschild did was legal in England at the time. It would also be legal in England and the United States today and the *Winans* case has no bearing on this result. Today, we call what Rothschild did securities research.

We will now consider some variations on our historical example. First, instead of being a wealthy individual merchant banker, Nathan Rothschild is a large stockholder and director of Rothschild Corporation plc. Since he knows that Rothschild Corporation will make a large profit on the British government bonds it is buying, he also knows that the shares of Rothschild Corporation will soon become much more valuable. He uses the information for his own benefit by buying Rothschild Corporation shares. This quite clearly has been a crime under US law since at least the early 1960s and it is illegal in England. It is a classic case of insider trading. In the US, Rothschild could also be sued for damages in individual and class actions by stockholders who sold while he was buying.

Second, suppose a Rothschild agent has been bribed by a competing merchant banker. Instead of going directly to Nathan Rothschild, he first delivers the pouch to the competitor who reads the contents and at the opening of business the next day begins to buy British government bonds.

From a legal standpoint, this is the same as the *Winans* case. The competitor has misappropriated Rothschild's information and used it to trade in the stock market. However, unlike Nathan Rothschild in the previous example, who was a director of Rothschild Corporation, the competitor owed no obligation to the Rothschild Corporation shareholders with whom he was trading. What the *Winans* case tells us is that in the United States today the competitor would be guilty of at least two crimes, violation of the SEC antifraud Rule 10b-5 and (since he would be very likely to use the mail and telephone in completing his transactions) the mail and wire fraud statutes.

Legislative projects

The bill in the Senate, and the SEC's draft bill, would do more than just follow the result in the *Winans* case. Although in the two variations of the original Rothschild example both Rothschild and the competitor committed crimes, Rothschild stockholders would be able to sue Rothschild but not the competitor to recover illegal profits. The *Winans* decision applies only to criminal cases and, therefore, does not sort out this discrepancy. On the other hand, the statutory definition in the bills makes misappropriation both a crime and the basis for individual and class actions to recover any illegal profits.

Another change made by the bills can be illustrated by varying the Rothschild example again. Nathan Rothschild is director of a publicly-owned Rothschild merchant bank but he knows enough not to trade on inside information. He, however, boasts to his nephew about what he had just achieved for the Company. Without the statute the criminal and civil liability of the uncle, and probably the nephew, would depend on whether the uncle expected to obtain a "personal benefit" from the trading. (Quite ambiguous in this example.) On the other hand, under the bills the uncle would be guilty of a crime and liable for his nephew's profits if his nephew's trading is "reasonably foreseeable" and the nephew would be liable if he knows "the information is material and nonpublic". (Probably quite ambiguous in this example.) British law appears to resolve the examples in essentially the same way as the proposed bills.[4]

[1] The formal case name is *Carpenter v US*, No 86-422 (Nov 16, 1987)

[2] The mail and wire fraud statutes were also in doubt because a Supreme Court decision last term had narrowed their scope. *McNally v United States* Nos 86-234, 86-286 (June 24, 1987)

[3] SEC News Release Nov 19, 1987

[4] Company Securities (Insider Dealing) Act 1985.

The authors are partners in the Chicago law office of Mayer, Brown & Platt.

THE MARKET for electronic publishing equipment – the word processors, workstations, laser printers, image scanners and software that give users control over creation and reproduction of documents – is one of the fastest growing computer businesses.

Propelled primarily by big business customers, projected sales will soar to $4bn by 1990 in the US alone. Banks, brokerages, accounting firms, industrial companies and even government agencies are tapping into the convenience and *savings that can accrue once initial* investment costs are recouped.

But not everybody is in a position to make investments of this scale or even less. Costs range from a few thousand pounds for personal computer-based equipment to several millions for the sorts of multiple-workstation, software-intensive, top-of-the-market *machines needed for 30,000-or-so-page* technical manuals.

In one recent deal, Boeing Co. spent $1.5m on Interleaf Inc. software to upgrade its electronic publishing systems needed during development of the manned space station which the National Aeronautics and Space Administration plans to put in orbit in the mid-1990s. Boeing won the contract to provide the laboratory and habitation modules

But not only is such equipment costly, invariably, specially-trained people are needed to operate it. The investment, even for low-end systems, can be a burden many companies do not wish to saddle themselves with.

In that burden, Gordon Sadler and his competitors spotted a market niche: following a trend in the US, they would buy the equipment themselves and set up electronic publishing bureau services for companies unwilling or unable to acquire their own systems.

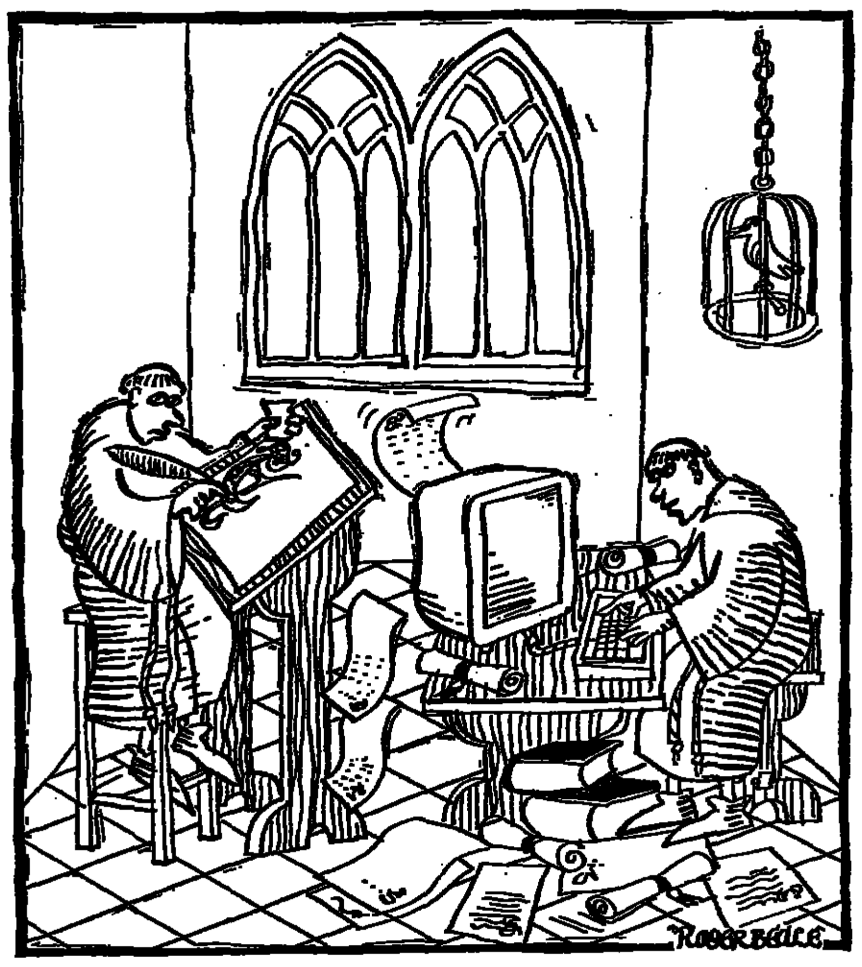
Offering £700,000 worth of advanced equipment, Sadler's two-year-old Newcastle upon Tyne venture, called Corporate Publishing Services(CPS), has grown from nothing to a company with half million pounds in turnover this year. It has only recently become profitable, says Sadler, who has just sold CPS, which he still runs, to Ferguson Industrial Holdings, the UK printing, packaging and publishing group.

Simon Beales of competitor Infograph points to one customer, a tractor manufacturer wanting to print parts catalogues: "It did not want to do it itself," he says. "To set up the equipment *we've got would cost over £1m.* The company said it made tractors and did not want to go into the publishing business."

Sadler says his market research shows that £1.2bn worth of work is now available in the UK.

Such a market is naturally attracting numerous competitors, all offering different types and levels of services. The several dozen contract printing agencies serving the City of London, for instance, are able to expand their range of services by adding electronic publishing software, says Oswy Hornby, managing director of Interleaf UK, a subsidiary of the US software company, which opened in Britain in June.

Interleaf sells its system software directly as well as through others,



Word spreads of a profitable niche

Jane Rippeteau explains how electronic bureaux can relieve companies of their publishing burden

including Kodak which markets a package comprising Interleaf software, Sun Microsystems hardware and its own top-end laser printer. This package is called *Kodak Ektaprint Electronic Publishing System, or KEEPS.* Xerox and Xyvision, of the US, market competing arrangements of proprietary equipment.

At the other end of the market are so-called desktop publishing systems that can typeset and reproduce text and graphics. Such personal computer-based systems allow copy shops to provide a bureau-type service in the lower-end of the market.

Software from Aldus, called PageMaker, has helped popularise this equipment. Now Interleaf has developed its more advanced typesetting software to run on Apple McIntosh II computers, heightening competition by bringing more publishing capability into lower-cost equipment. The company will not confirm industry speculation that it will launch, within the year, a product with similar capability for the ubiquitous IBM-compatible personal computer market.

Sadler, Beales and their half dozen or so competitors, are getting into a new high-end, full-service niche, also appearing *in the US with companies* such as Xanthus in Texas and Techset in Minnesota. Beales got into the business gradually from a conventional photocopying and lithographic printing service for corporate clients which he set up nine years ago.

"We thought initially electronic publishing would be a separate business," he says. "It took a very long time for it to take off." (One of the problems was that manufacturers failed to set common standards, making it troublesome for machines of different makes to communicate without translation "filters.") But gradually, he explains, "demand for electronic publishing began generating more business for our traditional reprographics and we merged the two companies."

Infograph takes copy in any form, and turns out either limited runs of up to 3,000 copies using laser printers, or camera-ready copy for photo-offset reproduction in large volume.

Not all companies, however, want to depend on outsiders to handle their printing work. Thomas Toon, print *manager at ICI Pharmaceuticals, says* that purchase of electronic publishing equipment is under consideration for the "simpler types of materials for our own use." He says this will be set up in-house "in order to have greater control" over the amount of time the work takes.

Others see big cost savings in keeping the job in-house: Harry George, vice-president of Interleaf, in Cambridge, Massachusetts, tells the story of the North Carolina General Assembly. He says the Assembly has calculated it *is saving $40,000 a year in typesetting* costs with $70,000 worth of electronic publishing equipment.

Minutes from daily legislative sessions are tapped into word processors on the floor of the chamber and sent electronically into Interleaf machines, where they are formatted and typeset into camera-ready hard copy. This is handed *straight-away to contract printers,* cutting the total turnaround time from six weeks to one day, according to George.

Electronic typesetting eliminates the time-consuming and repetitive drudgery of the cut-and-paste method of page composition. Not only is type formatted, but graphics can be scanned in electronically, then edited or moved *around in the same way as text.*

The US General Services Administration has estimated that the conventional means of producing a page with text and graphics costs between $25 and $40 per page, against between $1 and $5 if the same work is done electronically.

"That's more than we estimate," says *George of Interleaf.* "But it's this kind of rapid payback that's driving market growth."

Interleaf has been shipping its products for three and a half years. "Most of the demand has been from companies wanting to do technical documents. They can get a payback in less than a year, some in under three months," claims George. However, at Imedia Graphics, a new London electronic publishing bureau, managing director Ivor Jacobs says he thinks it will take a bit longer: about two years to recoup the £120,000 spent on KEEPS equipment he is installing for his business.

Most of the demand for electronic publishing equipment is still coming *from corporate customers,* says Tim Allen at Xyvision in Wakefield, Massachusetts. He says he cannot estimate the share of sales that goes to electronic publishing bureau companies.

But to Sadler, the market is just now opening up. "People are becoming more information oriented," he says. "Computers were supposed to bring about *the paperless office, but the opposite* has happened."

Japanese draw up battle lines over cheap videophones

BY CARLA RAPOPORT IN TOKYO

EVERYONE would buy a videophone if the price was cheap enough, right? For years, the videophone has been a star performer at industry exhibitions and consumer electronics fairs. But it has never moved into the High Street because of its high cost and its failure to pass the "who-needs-it?" test.

The Japanese, of course, would *like to change all that.* They are now producing the first products of a generation of cheap videophones which, if successful, could lead to another multi-bil*lion dollar market for Japan.*

At the moment, however, they are busy squabbling among themselves over standards. The pioneers in the market are Mitsubishi Electric, which is not famous for its innovativeness in consumer electronics, and Sony, which is.

Mitsubishi kicked off the race *for the desktop videophone* market in 1986 by introducing a product which sold for about $1,000 in the US. This used ordinary telephone lines, offered one *image at a time and came with* an optional printer which could make a hard copy print of the image.

At the same time, Mitsubishi *was working with NEC and* Matsushita on a format for a much cheaper videophone which, also using conventional phone lines, would appeal to the private con*sumer as well as the business* market. But before it could arrange an industry-wide consensus, Sony jumped the gun last July.

Sony announced *its* videophone, Mieteru (can see) at Y49,800 (about $375). It had developed this with Nippon Telegraph and Telephone (NTT). *The phone, which uses* ordinary phone lines, allows the caller to transmit one black-and-white, four-inch image in 10 seconds. The two parties cannot *talk while the* image is being transmitted.

In essence, the Sony unit is a souped-up fax machine, employing a small camera to "catch" *the image and then using the* same technology that transmits a facsimile down a telephone line. The lastest, most powerful microchips from Japan have *allowed Sony to miniaturise the* product and offer it at a cost which is within the consumer appliance price range.

The move was a classic one in *the Sony tradition of* audacity. It stole a march on its competitors, enhanced its image for innovativeness and garnered a huge amount of publicity for its new product.

Unfortunately, it now looks as if the Sony product will have to be abandoned or heavily re-designed. As soon as the Sony unit *appeared on the market,* Mitsubishi rushed out with its still videophone.

This phone can send images in half the time of the Sony product. *It also uses AM-phase* modulation for sending its images, as opposed to just the AM frequency for Sony. For these reasons – which gave the company a better *product* – NEC and Matsushita Electronics had already fallen in line with Mitsubishi.

But because Mitsubishi had to rush into the market, its *machine still incorporates* a number expensive telecommunications features. This means that it has to be offered at four times the price of the Sony Mie*teru, although* Mitsubishi intends to bring out a Y50,000 model soon.

Even so, Japanese consumers are still faced with two incom*patible formats on the market.*

Not surprisingly, the Japanese press has already raised an uproar over the videophone issue. A purchaser of a Sony *product* would be *unable to* swap faces with a friend owning a Mitsubishi, so what was the point? The debate even reached the Diet where a politician questioned the Minister of Posts and Telecommunications on the issue.

In true Japanese fashion, the problem has now been referred to a committee: the Telecommunication Technology Committee (TTC). This non-profit private organisation was set up by the Government to arbitrate on standards when the Japanese telecommunications field was deregulated in 1985.

According to Tokuo Iida, managing director of TTC, one of the two formats will be decided upon by February. Although it has not been officially announced, he says that a majority of the members on the committee favour the Mitsubishi format. In addition to quicker transmission, it allows the user to chose from two sizes of pictures.

"Our purpose is to avoid a for*mat war,*" *he states.*

Meanwhile, both companies admit that the still videophone is only a prototype of the kind of videophone which will be *made* possible when Japan is linked up to the integrated digital services network (ISDN). These ISDN videophones, which will offer moving pictures in full *colour, are still many years off* as they will require new communications cables.

Until then, the still videophones are expected to open up the market. "These products will put the consumer in the right frame of mind for the real thing. Its a good idea to have an introductory product, so you don't *have to start from scratch,*" says Virginia Kouyoumdjian, senior analysts at Baring Securities in Tokyo.

Direct US action on heart attacks

BY LOUISE KEHOE IN SAN FRANCISCO

LAST WEEK the US Federal Drug Administration gave approval to commercial sales of a portable defibrillator that has proved itself to be a lifesaver in clinical trails.

The MDphone, manufactured by MEDphone Corporation of *New York and, under license,* by Temtec of Belfast, Northern Ireland, is a unit that can be remotely controlled by a hospital doctor to provide instant medical care for heart attack victims.

When a person experiences chest pains or shows signs of a heart attack the MDphone, housed in a briefcase, is brought to the patient, plugged into a telephone line, and opened, causing the unit to automatically dial the pre-programmed number of the nearest hospital base unit.

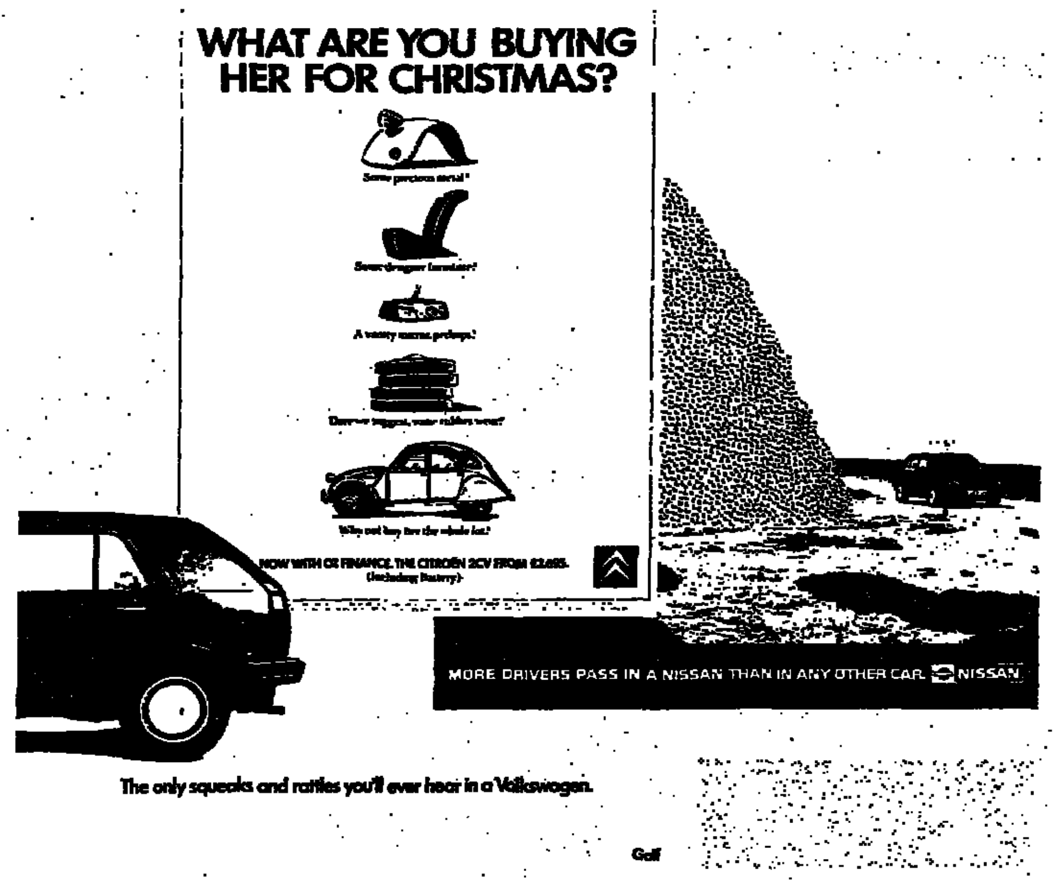
*While the unit dials, self-adhe*sive electrodes are attached to the patient's chest. As the call comes through at the hospital, it triggers alarms to alert the medical staff. The patient's electrocardiogram will appear on the MDphone monitor, and – if the call is coming in from a personal unit – the patient's name, medical history, and other vital information will also be displayed on a computer screen.

Once the patient's condition has been assessed, the physician can immediately, if appropriate, signal the remote MDphone unit to administer a defibrillating charge to the patient's chest.

The MDphone costs about $6,500.


AMERICAN EXPRESS AND NIPPON LIFE
ARE MAKING A MARK ON HISTORY.
On October 1st, a bold new venture was born. American Express Travel Related Services Company, Inc. and Nippon Life, Japan's largest life insurance company, joined hands.
A partnership blending the strengths and cultures of two corporate giants with the same commitment toward offering greater service opportunities to their customers.
For example, in Japan, Nippon Life's customers will be able to enjoy the American Express® Card offered through Nippon Life's nationwide sales organization.
In the future, you can expect to see more innovations from us that will have an even greater impact on the world's financial and travel communities.
You can mark our words on that.
AMERICAN EXPRESS
AMERICAN EXPRESS TRAVEL RELATED SERVICES
An American Express company
NISSEI
NIPPON LIFE INSURANCE COMPANY
© 1987 American Express Travel Related Services Company, Inc.

MANAGEMENT: Marketing and Advertising



Golf

Commercial brakes

Feona McEwan explains how car manufacturers are tackling the question of differentiation in a continually booming market

ONE OF the most arresting commercials currently on air in the UK is a mini-drama of such cunning soft sell that not until the closing shot is the product spelt out.

Beautiful girl slams front door of mews house, throws ring back through letter box, rips pearls off neck, casts brooch into bin, discards (fake) fur coat over a parking meter, dangles (and here's the first clue) car keys over drain. Has second thoughts. Anger melts to triumph as she hops into car, pats driving wheel reassuringly and speeds off. The product is not mentioned until the final frame - the only words come from singer Alan Price's moody lyrics, "Everyone is going through changes, no one knows what's going on." Then the punchline: "If only everything in life was as reliable as Volkswagen."

This is the latest of a growing breed of car advertisements which, in an increasingly competitive marketplace, is turning to "lifestyle situations" in an attempt to stand out from the crowd. Rather than promoting cars as isolated objects, they are now being presented as everyday utilities. This is in an attempt to provoke an emotional response different from that associated with traditional UK car advertising, which has tended to focus on product and performance figures.

Although there is no clear-cut trend, car specialists like Fiat, Renault and Toyota, as well as tyre manufacturers Pirelli and Michelin have been keen to exploit emotional impact with ads that pack a dramatic punch in around 60 seconds. Technology and performance still plays its part as BMW and Audi, among others, have consistently and sucessfully proved.

The past year has seen the continuation (at least up to the Black Monday stock market crash) of booming car sales in the UK for the fourth successive year, with units expected to top the 2m mark this year. Manufacturers and importers have continued to throw money at advertising in step with the growth in sales and since 1983 the car industry has been the UK's second largest advertiser. This year expenditure on car advertising will top £230m, according to Media Expenditure By Analysis. This means that for every vehicle sold an average of at least £130 is spent on advertising.

Critics argue that such costs are passed on to the driver and could be more usefully sunk into after-sales service or other consumer-oriented service. Others question whether manufacturers and importers need to go to such pricey lengths to promote a product that is in many cases, a necessary purchase.

For manufacturers, the rationale is clear. Speaking of his company's consistent advertising programme, (which emphasises reliability) John Meszaros, VW's UK marketing manager, explains: "If we don't tell the world that Volkswagen is reliable and reinforce that perception periodically with our advertising then slowly, slowly that would go out of focus in peoples' minds."

The advertising specialists claim that the consumer memory for cars needs regular reinforcement. Hence the year-round advertising campaigns waged, in varying degrees, by the main players. It's a lesson that advertisers with consistent messages like Volvo and Volkswagen have learnt pays dividends. Volvo, for instance, has been selling itself on the safety ticket for well over 13 years now and thanks to its dogged message, freshly served up year on year by advertising copywriter David Abbott and team, it is widely perceived to have captured the high ground on the issue.

Another spur to advertising is that cars are looking increasingly similar. "With designs converging and looking more like each other, it is increasingly necessary to cement belief in the badge," says Tony Taylor of DDB Needham, the VW agency. Another adman believes that advertising is essential to differentiate cars and give them personality.

The trick for advertisers, however, is in finding new ways to keep the consumer interested - hence the more far-fetched scenarios being played out in the name of car advertising on Britain's screens more recently. The Renault 5 "What's your's called?" strikes some this way.

The search for arresting images to excite consumer attention has been taken to extremes with the exotic Citroen advertising, which made its debut in 1985 in France, and featured the startling black singer Grace Jones. The French agency responsible, RSCG, brought her in to help revitalise the CX top-of-the-range relaunch model. Her striking face was shown burping a Citroen onto the screen in one ad, and racing through the desert in another, in a series which raised even further the French manufacturer's product awareness.

It continued its European-wide strategy this year with its London arm, Colman RSCG, catching the imagination with its outlandish ad showing the AX small car model being driven along the top of a moving train. The idea was to inject some personality into the model which was sbeing promoted as "the little car for great adventures".

By contrast, the staid but sound Volvo needs no such tricks. Keeping true to its traditional "Volvo values", as the company calls them, is good for sales, it has found. The consistent message of safety, reliability and durability (born out, claims Abbott, in countless testimonials), has paralleled a sales rise to 70,000 units this year, about 4 per cent of the market.

Nor will consumers be fooled. "You can't graft onto a car an image the car doesn't support. It is reliable - it comes from Sweden, a country with extremes of climate and it does last about 20 years on average, we can prove it..." says Abbott. "I don't think any agency in the world could convince consumers that a Volvo is a BMW. What we do is play to the car's strengths."

When a previous advertising agency proposed advertising that lauded the good looks of the car that has been likened to an army tank, the company changed agency.

The thrust of the marque's advertising is building brand strengths rather than individual models. Hence when Volvo started producing a new model from the former Daf car factory in the Netherlands, the ads read "To Volvo, a son". This was to reassure consumers that the family resemblence continues. (Feminists had other ideas and graffiti scrawled on a poster commiserated: "Better luck next time.") Some agencies believe that the aim of car advertising is just to build image and feeling. Abbott disagrees. "It's also to get people into showrooms and to get them to respond to short-term market conditions."

Advertising aims to promote the brand, and protect and achieve growth for the marque; and "as the advertiser is also a retailer, it has to shift metal from showrooms," says Abbott. Consequently Volvo's overall marketing campaign is planned to allow for any short-term tactical advertising that may be required - for instance, to promote a particular model.

Entering a new market brings its own demands for car manufacturers. When Nissan, formerly known as Datsun, Japan's second largest car producer (after Toyota) began UK production in 1985 it was regarded as an interloper taking advantage of the ailing British car industry.

The task for agency Saatchi and Saatchi was to raise the Anglo-Japanese profile of Nissan and make it as "British" as Ford is widely perceived to be. The first step was a corporate campaign featuring Geordie workers speaking in broad dialect. This was to show how British the company was becoming. It provoked some controversy over the use of such a broad dialect, but spontaneous awareness of Nissan among consumers after the campaign was better than for Austin Rover, Renault, Ford, Peugeot and Citroen.

Though Nissan's was essentially a corporate ad, its general tone displayed a social awareness very much in sympathy with the product messages from other manufacturers such as Volvo and VW. It is clear, therefore, that two distinct creative trends are being pursued by the producers of car advertisements. One sorts appeals to the socially responsible and practical; Nissan/Volvo/VW fall into this category. The other appeals to those who perceive their cars as an extension of their personality - such as Citroen, Peugeot and Porsche and the "What's your's called?" Renault 5.

Tokyo tells its tale

"INVESTOR confidence and economic strength make Tokyo the safest stock market in volatile times." That's the confident message in a full page advertisement entitled "Tokyo, October, 1987, What Happened and Why?" published yesterday by Nomura Securities, the leading Japanese securities company, in English language newspapers in Japan. The advertisement will appear in British and other overseas newspapers starting next week and, later perhaps, in US papers as well.

A Nomura spokesman says the company consulted its overseas offices about the appropriateness of the advert for their areas. Most had welcomed it, but the company's New York office opposed it. The spokesman says the company has had a large number of inquiries from foreign investors since the October 19 crashes.

These inquiries, among other things, led the company to believe that foreigners did not understand the fundamental strengths of the Japanese market. "In New York, people think that because the Japanese market has not fallen as much as the New York market, then the next crash will begin in Japan," he says.

The advert builds its case on the confidence displayed by all categories of investor in the Japanese market during the week beginning October 19. It points out that "the key players in cushioning the fall on the Tokyo market were individual Japanese investors."

These individuals bought the equivalent of $3.8bn in shares during October, offsetting to some extent the $14.4bn worth of shares sold by foreign investors. All other categories of Japanese investor are also shown to have been net buyers in October.

The Nomura spokesman says that the company's London office wanted the illustrations in the advert modified to emphasise the activity in the week of the crash rather than the whole month of October. "Our London office says that many people in London will criticise us because the Tokyo market is manipulated. But we do not buy and sell for our own account."

Discussions are still going on, he says, with the group's New York office aimed at getting the advert published in US media.

Ian Rodger

A Shepherd beefs up the meat market

FOR ALMOST a year now, Cybill Shepherd has been telling millions of US prime-time TV viewers about her primal cravings. But this is no lewdness invading the American airwaves; Shepherd has been confessing her modest yearning for a good, old-fashioned hamburger.

As a spokesman for the Beef Industry Council - a role she shares with James Garner - Shepherd is trying to give the much-maligned hamburger a more upbeat image. The two actors were hired as part of a major marketing drive launched by the beef council this year. The overall effort, which is financed by US cattle producers, includes a $27m advertising campaign aimed at boosting beef's image.

Harking back to the days of the Wild West when men were men and wouldn't dream of eating quiche, the ads show Shepherd driving a 1950s Cadillac through the desert. In the background, a Country and Western band sings about real food as tantalising glimpses of sizzling steaks and hamburgers flit across the screen.

Arriving at a neon-lit diner in the middle of the - presumably Texan - desert, a svelte Shepherd approaches a plate of real American beef. The voice-over chimes in: "Don't tell me what they eat in Frisco...I would rather be in Amarillo...Give me a steak and I won't be blue." [Amarillo is a cattle town in Texas.]

Under the catchphrase, "Real Food for Real People," the beef council's campaign is trying to re-assert beef's macho, but also healthy, image. At the end of Shepherd's ad extolling the virtues of a hamburger, she confesses innocently: "I mean, I know people who don't eat burgers. But I'm not sure I trust them."

In another jibe at vegetarians, Garner complains about the vegetables falling off from between the sirloin on his beef kebabs. "But I fixed that. I don't put any vegetables on. Had to be some reason man invented salad," he growls.

Against a background of flat beef consumption for the last eight years, the beef producers launched their Real Food drive in January. The marketing effort - which is not just an advertising campaign, but covers an information, research and education programme - is due to run until May next year, when producers will vote on whether to continue it.

One of the programme's main aims has been to try to reinforce consumers' attitudes to beef as a convenience food. "Whether beef is considered convenient or not is very important in someone's choice of what to make for dinner," explains Jean Sowa at the beef council. "We try and stress that there is nothing more convenient than throwing a steak on the grill."

Cybill Shepherd repeats in her ads how "utterly simple" a hamburger is. "Something hot and juicy...you can eat it with your hands."

Initial research has shown that the campaign is beginning to pay off. A study of consumer attitudes, conducted for the beef council by Walker Research, reported a rise in the number of people regarding beef as a convenient food. In a study of consumer samples taken in January and June, the percentage finding beef convenient to prepare rose from 68 per cent to 76 per cent during the period.

In its study, Walker found an increase in the number of consumers who said they were eating more beef - from 8 per cent in January to 13 per cent in June. And while 25 per cent said they were eating less beef in January, this figure had fallen to 20 per cent in June. While advertising has helped fuel this movement, Walker attributes the improvement to the whole marketing programme.

This programme has included a strong educational effort in schools where the beef council has provided nutritional software packages for Home Economics teachers and athletic coaches.

The Walker study found that the biggest impact the advertising had made was on people's view of beef as a convenience food. Although health and nutritional concerns about red meat are still present, the study found that beef's image is not getting any worse in these areas and, in some cases, has actually shown an improvement.

Overall, farmers are said to be pretty pleased with the way the Real Food campaign has made beef look more fashionable. But recently they expressed some concern about Shepherd's role in the campaign since Maddie, the character she plays in the TV show "Moonlighting", found she was pregnant. Maddie is unmarried, and cattle producers asked if this were the right image for beef. However, the beef council stresses that in real-life Shepherd is married and has given birth to twins.

Deborah Hargreaves

هكذا من الأصل

Dulwich Picture Gallery/David Piper

Time to appraise Mr Cartwright's patronage

William Cartwright was a Royalist; an actor in King Charles I's time; in the book trade in the Interregnum when the theatres were proscribed; and actor reborn after the Restoration. When, all but eighty years old, he died in 1686, his house was crammed with pictures. He bequeathed them to Dulwich College, and the inventory - in his own almost childish hand, cavalierly indifferent to orthodox spelling - survives, all except the endlessly frustrating loss of one page. It numbers 239 items.

After three hundred years, the residue that can be identified with reasonable certainty from the inventory is rather less than eighty. They have now been installed (until 28 February) in a couple of rooms, close hung as most of them would have been, "closet pieces," and supported by a few relevant loans from the British Museum, the National Portrait Gallery, and some handsome period furniture from the Victoria and Albert Museum.

One purpose is to salute in seemly piety an important benefactor; another to illustrate the possibilities open to a collector in London who was not rich if not poor, but not wealthy enough to afford either top fashionable living painters, nor originals by Old Masters. But Cartwright was clearly covetous for pictures, if careless about quality: he was content, for great names, with copies (though these are honourably listed as copies). One may suspect, though, that many of the best pieces may have been "borrowed" (rather finally) by sharp-eyed ushers in the College in the early years. But Cartwright probably bought from artists he knew, and the sum still suggests interestingly the flavour of the middle market available in London at the time. I suspect too, that as actors often do, he enjoyed consorting with artists in relaxed, even raffish company.

His modest patronage included one artist who, had he not been destroyed by "a loose and unguarded Manner of Living" might have developed a fresh and original talent of great promise: John Greenhill, who died drunk in 1676, only in his early thirties. He was a pupil of Lely's, but capable of a fresh directness of approach and draughtsmanship; at Dulwich he is at his best, and it is the place to study his work. The portrait of a lady as a shepherdess with a lamb was already a fashionable cliche, but in Greenhill's version (probably of one of Cartwright's wives; he had, observes the catalogue, "a propensity for women") the cliche becomes credible and vital. Greenhill also enjoyed the company of actors.

In a sense the exhibition is almost an archaelogical exploration into the pre-history, as it were, of that wonderful collection that is such an astonishing element in now-suburban Dulwich, its Art Gallery. When the Desenfans/Bourgeois bequest suddenly spilled its cornucopia of authentic masterpieces by such as Poussin, Cuyp, Reni, Rembrandt, Rubens, Van Dyck, etc into Dulwich in 1813, making it an obligatory port of call for art-lovers and inspiring subsequent major benefactors as well, the typical but modest contributions of the orginal founder Alleyn – some thirty pictures in 1626 – and that of Cartwright (whose father had been a friend of Alleyn) could not find room on the walls of Soane's new Gallery. Some indeed have remained in view generally, but others, such as those that escaped Peter Murray's sumptuous Gallery Catalogue (as recently as 1980), should not be lost from sight.

One such is the delicate, palely fastidious likeness of "Colonel Lovelace" – i.e. the author of one of the most anthologised lyrics in all English poetry: "To Althea from Prison." It is a portrait of high significance in our national iconography, and moreover, Dr Malcolm Rogers has now ascribed it very plausibly to the hand of the finest British-born painter of the seventeenth century, William Dobson. A related portrait, inventoried by Cartwright as "Altheas pictur her hare desheueld" (sic) is also of great if more more sentimental fascination, and perhaps rather over severely reprimanded in the exhibition catalogue as "stolid" in treatment - indeed, not by Dobson, but the head is of much sensitivity.

The quite admirable catalogues, masterminded by Nicola Kalinsky, is an indispensable supplement on the shelves to Murray's catalogue. The contributors are austerely resolute in refusing all temptations to label local geese as swans. One true swan to emerge is a charmingly decorative Jacobean lady, who must surely be the autograph work of Gheeraerts the Younger. And there are geese, and geese. The set of portraits of early actors are not high art, and their identifications are in some cases wobbly, but one is beyond reasonable doubt the likeness of Richard Burbage, greatest actor-manager of Shakespeare's day, and a colleague of his. A novelist might extrapolate a seventeenth century Good Companions from these very individual thespian faces.

Here too you can study as nowhere else the sprightly sea pieces of one "a Castro," entirely Flemish in manner but of an enjoyable competence; the only documented landscape by the some-time famous Robert Streater, painter of the ambitious and undervalued huge ceiling above Wren's Sheldonian Theatre; a vivid swift sketch of a little girl that may call Hogarth to mind, but is noted by Cartwright as by the rather elusive Isaac Fuller; a moody landscape of Westminster seen from the Thames by the even more elusive Cornelis Bol; works by Colonia, and the apparently unique but very competent "Still-Life" by Parry Walton - all eloquent witness to the range available in London.

The exhibition demonstrates admirably how small galleries without financial resources can invent and produce rewarding exhibitions that make a genuine contribution to knowledge - and to our enjoyment. Its recognition as such by the sponsors - Morgan Gillie Period Property Specialists - is all the more warmly to be saluted.

"A Dutch India Man off Hoorn" by a Castro, and a portrait of William Cartwright's wife, Alice

Margaret Price/Wigmore Hall

David Murray

As Richard Fairman reported from Sunday's Solti *Messiah*, Miss Price is on wonderful form. Her Tuesday programme with Geoffrey Parsons looked unremarkable on paper – golden oldies by Schubert, Mahler and Strauss, and a great Mozart concert aria without its essential orchestra; besides, her recent recording of harmless Verdi songs had struck me as distinctly over-sung, and I wondered whether the Wigmore Hall would cope. In fact the recital proved to be pure gold, pleasure unalloyed.

Not the least of its satisfactions was that it never sounded like a specially lucky evening. On the contrary, Miss Price's opulently beautiful sound, musical authority and extraordinary technical control bespoke an utterly secure artist. Somehow she contrived to give generous rein to the voice without making us wish we were at a safer operatic distance: she wasted no word of her texts (granted one or two missing umlauts in her German), but disdained verbal histrionics: best of all, with all that practised art, she took us by surprise with her unashamed romantic commitment, and was very moving.

It wouldn't have seemed possible at this late date to make Strauss's "Freundliche Vision" and "Ruhe, meine Seele," mawkish poesy both, so candidly poignant. Nor to do justice – especially at the start of a recital – to "Ch'io mi scordi di te?" with piano alone (Parsons did sound understandably discouraged), since this love-duet for soprano and piano soloists (Nancy Storace and Mozart, in fact) over a limpid orchestra loses its sense in a mere piano reduction: but Price's grave dignity and noble dramatic range made their own impression. Immediately after, she began her Schubert group with a "Du bist die Ruh," re-created in full, quite radiant tone, much as she flung herself into Strauss later with a rapturous "Heimliche Aufforderung."

Parsons recovered his spirits once Mozart was out of the way. In the Mahler *Knaben Wunderhorn* group he captured uncannily the orchestral colours of "Wo die schonen Trompeten blasen" to match the soprano's magisterial shaping of the song, and in Strauss – including Miss Price's first encore, a 'Morgen' of affecting simplicity – his sensitive support was flawless. It surely had something to do with her brilliantly seamless reaching up for Mahler's high-lying phrases, too, a rare triumph of technique that needed such a partner's subtle pacing.

Mozart/Barbican Hall

Andrew Clements

Though some conductors have shown how the lessons of authenticity may be applied to performances with conventional instruments – Roger Norrington's Beethoven with the Philharmonia two months ago is a good example – there remains a large area of uncertainty that seems able to ensnare the most intelligent interpreters. Jeffrey Tate's account of Mozart's G minor Symphony K.550 with the English Chamber Orchestra on Tuesday reduced the size of the band to a minimum - three desks of first violins, a couple of double basses - and avoided an excess of sentiment, but the result was curiously neutral, as if in taking these measures he was offering a surrogate for more far-reaching and musically apposite innovations.

Tate's Mozart can be thrilling: urgent, tightly sprung, romantic in a thoroughly re-creative sense just as Furtwangler's or Klemperer's was. But here he seemed at pains to expunge all suspicion of indulgence. The uninflected flatness of much of the playing, elegantly finished though it was, offered too few expressive features, so that one hoped for a sforzando suddenly to be robustly underlined, or a generously proportioned hairpin to place the performance in the context of some kind of authentic tradition.

In the Requiem K.626 Tate balanced his account more convincingly between the two stools. The hearty rhythmic drive with which the Kyrie's fugue was articulated laid down the approach for what was to follow; only a few sections failed to fulfill that promise. The Lacrimosa was one in which Tate held back, so that the movement became inert; at other moments inner parts lost buoyancy and clarity. The solo quartet – Barbara Bonney, Linda Finnie, Robert Tear and Gregory Reinhart – generally took a firmly traditional line, Bonney's and Reinhart's elegant care contrasting sharply with their colleagues. The 50-voice chorus, the Tallis Chamber Choir, had been well drilled; their contribution, like so much more, teetered on the brink of the genuinely memorable.

Brendel/Festival Hall

Dominic Gill

Alfred Brendel's Schubert cycle continued on Tuesday night with the later A minor (D845) and the great D major (D850) sonatas, framing the set of four Impromptus op.90. For all the cloud of devotion which rose almost palpably from his audience as Brendel's fingers first touched the keyboard, and hovered above us with relentless piety until he left, the recital was most remarkable for its utter unremarkableness. It is a curious cult. Could those who applauded his D845 with such fervour have ever heard Richter's incomparable performance of the same sonata? – or Curzon's, Lupu's, Cherkassky's, Serkin's or Schnabel's wonderfully various, wonderfully individual, readings of the D major?

To offer a solo Schubert cycle in the Festival Hall is unequivocally to claim public kinship with the greatest Schubertians. Yet Brendel's account of the lovely op.90 Impromptus was a pale and tentative essay beside even such flawed (though majestically adventurous) performances as the young Russian Nikolai Demidenko's had been in the Wigmore Hall a few weeks before. What sort of great Schubert playing was this of the famous E flat and A flat Impromptus, flat and didactic, as technically undistinguished as it was expressively unsurprising?

Schubert is a far greater, and far more chameleon, artist than Brendel would ever have us believe. The recital was unsettled further by the familiar current of rhythmic instability which has haunted Brendel's playing with increasing frequency during the last decade. It is not so much that Brendel, like Schnabel, plays hardly any pair of consecutive measures in the same tempo; it is that, unlike Schnabel, Brendel rarely finds convincing rhythmic coherence even within a single tempo, let alone relative coherence among them all. It is a subtle but perceptible weakness that has a very powerful cumulative effect: a swaying from emphasis to emphasis, without ever discovering a true rhythmic centre, the music's rhythmic heart. It is always a numbing procedure, but especially so in Schubert; and I think it is a key to the peculiar and consistent blandness of Brendel's interpretations. There are two more recitals in the series, next Sunday and Tuesday.

Musical spoof in Southampton

A new musical spoof *Love Off The Shelf* by Roger Hall opens at the Nuffield Theatre, Southampton from December 17 for a seven week season, with music by Philip Norman and lyrics by A.K. Grant.

Cinderella/Shaw

Michael Coveney

You will not find a more efficiently produced, more thoroughly enjoyable pantomime in London all season than the *Cinderella* in the Euston Road.

Simplicity is the keynote. Ben Benison, the director, is a mime and movement expert, so a hunting chorus can be evocatively rendered by four actors on hobbyhorses. The brokers men are tax collectors in the shape of a new comedy duo, Heap and Wall, who are as neatly inventive as they are endearing. They lead the controlled chaos of the fox hunt through a delighted auditorium, one of them protesting, correctly, "It's only a piece of fur on a string."

Suzie Quatro, having disowned black leather and got her gun as Annie, continues an intriguing post rock career as an aggressively sympathetic, notably well sung, Prince Charming. I tend to judge principal boys by the flesh on their thighs and the cut of their jibs. In this respect, Miss Quatro, and her blonde Dandini (Debbie Ash), score high points in their well-filled, well-stretched buff riding breeches.

The script by Mr Benison is lean and traditional, contemporary references confined to an Ugly Sister's sneer at anyone who likes Philip Schofield on children's television. Charlotte and Euphonia (Tom Henty and Bill Thomas) are palpably men in drag, sporting bright fright wigs and tattoos. Their mother, Baroness Hardup (Angela Moran), is a veritable mountain of bosom and bossiness.

The integrated casting is no whit offensive. Black Baron Hardup (Johnny Worthy) is concerned that his daughter Cinders (Beejaye) does not make friends of her own age. The one flaw here is that the wonderful tap-dancing Buttons of Paul J Medford (whom you may recognise as Kelvin from *East Enders*) does not even share a song with her.

Alastair Muir

Beejaye and Suzi Quatro

Still, all is mended at the palace where a hot-gospelling "vicar" (Joycea Gobern) ratifies the royal match. But only after Prince Charming is all set to be as glumly good as his word and to marry Charlotte, who has stuck a bound and gagged Cinderella's foot into the anointed slipper, a sequence of simple hilarity characteristic of the production.

The costumes by Chris Cowell are colourful, deceptively lavish and stylishly cut. Thus they are consistent with Richard Bullwinkle's outstanding, picturesque design, which has wrought wonders on a low budget. The forest is a glade of glittering pagoda trees and trick perspectives, and the boudoir and kitchen scenes are boldly executed in unfussy one-dimensional cut-out pieces. The transformation scene makes cunning use of phosphorescent Black Theatre techniques.

Ken Bolam's music, played in a pit sunk into the middle of the stage by a lively quartet, includes reggae, rock and ballad items. So, three hearty cheers for this year's Camden pantomime. As a local resident, though, I reserve the right to blow one loud raspberry at the programme, a rip-off at 75p that is inclined to make me feel a little more charitable even towards the National Theatre's sorry efforts.

The 1987 ABSA awards

Antony Thorncroft

It was prize giving time yesterday evening for ten companies who were judged to have done their bit, and more, for arts sponsorship in 1987. What made the ABSA award giving ceremony at the Victoria & Albert Museum more affecting was that this was the tenth year of the Daily Telegraph sponsored event and that the Prince and Princess of Wales were present.

The awards have grown to twelve in number, and another was added yesterday – the considerable one awarded by ABSA to Lord Goodman for his work for arts sponsorship over many years.

The three winners for the best corporate programme were three very familiar names in the arts sponsorship world – BP, the National Westminster Bank and W.H.Smith. BP was praised for its range of help, from the "Dance for Everyone" project for the disabled to "British Art in the 20th century" at the Royal Academy. Nat West was also praised for its aid for the disabled through its "Arts Access" programme, and W.H.Smith's contribution to "Interact" with the National Theatre Education Department was acknowledged.

In the best single project category the winners were Allied Irish bank for its backing of the English Shakespeare Company, which brought Shakespeare back to the regions; IBM for supporting Berlioz's *The Trojans*, a joint production between the Welsh National Opera, Scottish Opera and Opera North of an opera which has only once been staged complete before; and Yorkshire Electricity Board for enabling the first Leeds Film Festival to go ahead.

The three first time sponsors to receive awards were Digital, which is behind seven projects to help raise standards in the world of dance, from classical to contemporary, in the UK; James Henry Estate Agents which supported a new play, David Pownall's *The Viewing* at the Greenwich Theatre; and Mont Blanc, the pen company, for *Comic Iconaclasm* at the ICA, which under-scored the links between comics and art.

The best sponsored event in the youth field was judged to be the Prudential, with its backing for an LPO concert involving fifty schools in the borough of Tower Hamlets. The best commission of new art was judged to be insurance brokers Rixon Matthews Appleyard's commission of five new sculptures in Hull on a maritime theme from young sculptors just out of college. And the best sponsorship for arts and the disabled went to Hickson International for its Access *Sculpture Trail in the Yorkshire* Sculpture Park.

There is also an award for the arts organisations which make the most of sponsorship. Donated by W.H. Smith it is to be shared between Artists' Agency, which persuades business to commission art and fund house residencies in areas of high unemployment, and London City Ballet, which exists only on private funding and yet manages to thrive.

Arts Guide

December 4-10

Exhibitions

LONDON

Tate Gallery. Turner in the new Clore Gallery: the Turner Bequest, which amounts to nearly 300 oil paintings, finished and unfinished, and a further 19,000 or so watercolours and drawings, has been a source of controversy and dissent ever since it came into the nation's hands more than 130 years ago. But eight rooms for paintings and one for watercolours give room enough, and with the three reserve galleries upstairs, every painting but the few in restoration or on loan is on the wall.

PARIS

Petit Palais, Ave Winston Churchill; **Musee d'Art Moderne de la Ville de Paris**, Ave President Wilson. Five Centuries of Spanish Art. An ambitious ensemble of four exhibitions retraces the history of Spanish art from the Golden Age to today. The two most important exhibitions are El Greco To Picasso at the Petit Palais and Picasso's Century at the Musee d'Art Moderne. But there is also Juan Gris, and Miro, Dali and Tapies. Both exhibitions are closed on Mondays and both end on Jan 3.

Grand Palais. The Grand Palais is staging the first retrospective of Fragonard in collaboration with the Metropolitan Museum, New York. About 100 paintings and as many drawings celebrate the artist's love of beauty in which he saw a manifestation of "nature's perfect health". Ends Jan 4.

Musee des Arts Decoratifs. A King's Table: some 400 pieces of 18th century silversmith's work from the court of Denmark conjure up the glitter and magnificence of the Service a la Francaise. 107 Rue de Rivoli (42603214). Closed Mon and Tue. Ends Jan 3.

Picasso's Drawings. Coinciding with the publication of a catalogue of Picasso's drawings belonging to the Paris Museum, an exhibition of 136 drawings retraces the panorama of the artist's creation. There is his early work of academic perfection confronted with daring shortcuts preparing for cubism through to his uncompromising, moving reaction to the approach of old age and death. Musee Picasso (427 12521). Closed Tue. Ends Jan 4.

Maitres Impressionistes et Modernes. From Pissarro's Road to Louveciennes with vast trees throwing shadows across the road to Fautrier's blue paint thickly laid on in an abstract composition; from Monet's orgy of pinks, mauves and greens in a house among roses reminiscent of his Nympheas to the geometrically-shattered pale yellow and off white surface of Vieira da Silva, the impressionist and modern inspiration changes as does the entire concept of art. Galerie Daniel Malingue, 26 Ave Matignon (42666033). Ends Dec 19.

WEST GERMANY

Munich. Staatsgalerie Moderner Kunst shows sculpture from East Germany. A result of the cultural agreement of May 1986 between East and West Germany, this exhibition covers four decades in 130 sculptures, some larger than life, and about 60 paintings of sculptures by 51 artists. Ends Jan 3. Mannheim Stadtische Kunsthalle from Jan 23 to Feb 21.

Munich, Kunsthalle der Hypo-Kulturstiftung. Rene Magritte 1898-1967. This is the first extensive retrospective of the Belgium surrealist shown in Germany. Its 140 works from museums and private collections in Europe and the US will seek to counter criticism that he was not concerned about what he was drawing. Theatinerstr. 15. Ends Feb 14.

ITALY

Rome, Villa Medici (French Academy). Picasso - the last years (1968-1973). The French Academy, proprietorial as ever towards the greatest of modern artists, has mounted a riveting exhibition of etchings, drawings and oils mostly from the last five years of Picasso's life. The exhibition is so full of energy, invention and surprise as to be exhausting. The starting point of 1968 is the year in which Picasso began the first of his last two major series of engravings, known as the 347Gravures. Ends Jan 12.

Milan, Palazzo Reale. Eighteenth century Italian landscapes from private collections organised by the equivalent of the British National Trust, the Fondo Ambiente Italiano. The exhibition includes 70 delightful landscape paintings, divided into three major groups or schools the Roman, the Venetian and the Neapolitan Ends Jan 17

NETHERLANDS

Amsterdam, Brakke Grond. A festival presentation of the artsfrom Glasgow. with fashion shows, designer exhibitions and poetry readings. (24 04 94)

Amsterdam, Rijksmuseum Printroom. As a pendant to the survey of landscape painting in the main galleries, the printroom is showing a fine selection of 100 17th century drawings devoted to the theme of Land and Water. Ends Jan 3.

Amsterdam, Historical Museum. Contemporary photographs, utensils, menus and registers chart the rise and heyday of Amsterdam's grand hotels from 1860 to 1914. Ends Jan 17.

Amsterdam, Rijksmuseum. A sweeping view of 17th-century Dutch landscape painting. More than 100 works by over 50 artists trace the development of the genre and its offshoots. Ends Jan 3.

Leiden, Rijksmuseum voor Oudheden. Manuscripts, books and maps spanning 1,000 years of scientific imagination and knowledge. Ends Jan 17.

MADRID

Fundacion Juan March, Castello 77. Mark Rothko 1903-1970 includes 54 works by North American artist of Russian origin grouped with de Kooning and Pollack. This show was seen recently at the Tate in London. Ends Jan 3.

NEW YORK

Metropolitan Museum. 200 objects from the Age of Sultan Suleyman the Magnificent demonstrate the wealth and skills at the high point of the Ottoman empire in the sixteenth century. Ends Jan 17.

Art Institute. 48 key Impressionist and Post-Impressionist works from the Courtauld collection tour America with paintings by Cezanne, Manet, Renoir, Seurat and Gauguin Ends Jan 3

Center for African Art. Angles on African Art features ten co-curators, ranging from an African tribesman to collector David Rockefeller, each of whom chose ten of their favourite pieces, making a well-rounded and diverse show. Other curators are writer James Baldwin, artists Nancy Graves and Romare Bearden and curator William Rubin. Ends Jan 3.

Jan Krengler Gallery. This new gallery is inaugurated with 60 Cubist works by Picasso from the Marina Picasso Collection with two decades of paintings, drawings, sketchbooks, collages and prints from 1907 to 1926. Ends Dec 10. 41 E. 57th, 6th floor.

WASHINGTON

National Gallery. A Century of Modern Sculputre, the Patsy and Raymond Nasher Collection, contains major works by Rodin, Picasso, Matisse, Gabo, Giacometti, Ernst, Moore and Serra. Ends Jan 3.

TOKYO

Azabu Museum. Edo Pastimes: this exhibition of screens, scrolls and paintings with works by courtesans in the old Yoshiwara Pleasure Quarters of Edo (now Tokyo) evokes the colourful and lively leisure pursuits of an era when the Japanese were not obsessed with work. Ends Dec 25. Closed Mondays.

Tokyo Metropolitan Teien Art Museum. near Meguro. 100 New Scenic Spots in Tokyo. A modern version of the series of woodblock prints by Hiroshigo. The locations were chosen by popular vote among Tokyo's citizens and the metropolitan government then commissioned leading artists to depict them in oils or watercolour Ends Dec 22.

Saleroom/Antony Thorncroft

After auction sales

After its problems with Impressionists and modern paintings last week Sotheby's did much better with Old Masters yesterday. Its sale totalled £3,645,950, with 26 per cent unsold. But most of this fairly high bought in figure was attributable to a Dutch interior of a woman, with her child and servant, by Pieter de Hooch which was unsold at £290,000. Urgent negotiations with the vendor ensued and after the auction it was sold for £280,000.

There has been a considerable increase in after auction sales in the last month. The reserves and estimates on lots were fixed before the Stock Exchange crash but with the market now generally more subdued the auction houses can often persuade vendors to accept a lower bid after the sale.

The top price in the saleroom was the £330,000 paid by the Dutch dealer Hoogstedter for a still life of oysters, sweet meats and the like which had carried a top estimate of £50,000. It was an auction record for the early 17th century Dutch artist. A Murillo of the Vision of St Anthony of Padua also did well at £308,000 but another major surprise was the £286,000 paid for "The Fruitseller" by Vincenzo Campi, a 16th century artist, which made £286,000, four times estimate.

A still life of flowers by de Heem went, on target, for £220,000 and a picture of a young man holding a wine glass by von Honthorst sold to a New York dealer for £176,000, way over forecast. "La jeune pelerine" by Nicolas Lancret, a portrait of a lady in fancy dress, went to Wildenstein in New York for £148,500.

At Christie's Quarritch paid £22,000 for a first edition of Bolyai's key mathematical treatise "Tentamen juventutem" published in 1832 but not in the British Library, and at Bonham's erotica sale a tortoiseshell snuff box containing a doubtful picture made £2,750. Sotheby's also sold wine, making £17,600 from a collection of Chateau Latour, containing one bottle of every vintage between 1887 and 1983, with six exceptions, plus a few earlier additions. The wine had been assembled over the past thirty years, and the price was at the low end of the estimate.

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BRACKEN HOUSE, CANNON STREET, LONDON EC4 P4BY
Telegrams: Finantimo, London PS4. Telex: 8954871
Telephone: 01-248 8000

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Rejuvenation of GATT

AT FORTY years of age, the General Agreement on Tariffs and Trade (GATT) has progressed from sickly youth through lusty adulthood to premature senility. The challenge now facing makers of trade policy is how to achieve rejuvenation.

That challenge can only be met if both the international agreement and domestic understanding of the basis for trade policy are strengthened simultaneously. The requirements are elucidated in two important recent publications: A Handbook on the Multilateral Trade Negotiations, published by the World Bank; and a report on the Public Scrutiny of Protection, published today by the Trade Policy Research Centre in London.

The GATT, the residue of the still-born International Trade Organisation (ITO), has proved more successful than anyone could have foreseen 40 years ago. It can even be argued that the GATT has turned out to be more successful than its rich sister, the IMF. The IMF and the ITO were supposed to provide a rule-based system for the international economy, the IMF for money and the ITO for the real economy. In the event the system of monetary rules collapsed while the trading system, though tattered, still survives.

Protection growth

The GATT has survived, because it is needed. Through floating exchange rates the monetary system can, if necessary, fall back on the market. But the trading system is the market. The state of international trade in agriculture today indicates the problems that would arise if the GATT did not exist.

That the GATT has survived does not mean that all is well. There has been a steady growth in protection even in the area where the success of the GATT had been greatest: the protection of manufactured goods. Particularly worrying has been the growth of discriminatory non-tariff barriers, estimated to cover more than 10 per cent of world trade. Almost equally disturbing has been the weed-like increase in the application of the dubious concept of "fair trade". Many of these developments have occurred outside the GATT.

The core of the GATT is an international agreement to achieve stable, non-discriminatory protection through a market-conforming measure, the tariff, and to liberalise such protection through reciprocal bargaining. But reciprocity is a mercantilist idea. Under reciprocal bargaining, expanded opportunities for export are a gain and increased imports are seen as a cost. Trade is then a sort of war and the GATT can be viewed as a disarmament treaty for mercantilists.

Within this system the principle of non-discrimination is vital, since it extends any liberalisation agreed between two parties to all of them. Without that principle, mercantilist trading powers are likely to arrange liberalisation among themselves, while discriminating against the rest.

Unfortunately, this is precisely what has happened. Under the mercantilist perspective liberalism, in the face of exports from countries with little to offer in return or that are painfully competitive, is difficult to maintain. In the event the force of the principle of non-discrimination has faded away, weakening the ability of contracting parties of the GATT to maintain liberalism in the face of growing pressure for protection.

Domestic costs

One remedy is to pursue the Uruguay round with all possible energy. In fact, progress this far has exceeded the expectations of all but the most optimistic, the principal threat being the US trade bill. The threat has diminished as a result of the stock market crash, since memories of the Smoot-Hawley tariff of 1930 have revived.

More is required. One of the goals of the Uruguay round should be to increase the transparency of the domestic costs of protection. One route is improved GATT surveillance of member countries' trade policies. In addition, procedures should be established in individual member countries that make more transparent the domestic costs of protection. Injury to competing producers is not just a cost of liberal trade, it is also the route through which the main benefit — enhanced opportunities for consumers — is achieved. Without a greater domestic understanding of that relationship, the GATT is likely to decay still further. With it, a rejuvenated GATT could offer at least another vigorous 40 years.

The Gibraltar triangle

TINY remnants of Britain's colonial past, like the Falklands and Gibraltar, have managed to attract an amount of attention wholly disproportionate to their real importance to the UK's national interests.

The future of the Falklands, though temporarily dormant as an issue, remains unresolved. Gibraltar, on the other hand, has recently resurfaced as a serious irritant in Britain's relations with Spain. Gibraltar's fears for its future and Spain's demand for tangible progress towards solving its historic claim to the Rock, delayed and almost sabotaged the new European deal on liberalising air fares and routes. That was averted, but the solution now found threatens a new crisis between Britain and her colony.

The resignation yesterday of Sir Joshua Hassan, Gibraltar's Chief Minister, opens up the possibility of a less pragmatic and more isolationist leadership, which could damage Anglo-Spanish relations if not delicately handled by all concerned.

No one can criticise Sir Joshua for seeking to bow out at this stage. He is 72-years-old, has been in politics for over 40 years and has long made no secret of his desire to retire. Elections are due within the next two months and it would be unrealistic to expect him to serve another full term. Nevertheless, his resignation will create a vacuum and seems likely to pave the way for Mr Joe Bossano, leader of the opposition Socialist Party, to become Chief Minister. Mr Bossano has built his political career on a firm refusal to have anything to do with Spain and on the now outdated belief that Gibraltar is owed a living by the UK.

Colonial outpost

Not surprisingly the British Government relied on Sir Joshua to be a moderating force and nudge Gibraltarians away from their fears of being absorbed by Spain, which Franco's blockade had encouraged. Grudgingly, but realistically, he went along with the tortuous Anglo-Spanish diplomatic efforts to reach an understanding that was finally shaped in the 1984 Brussels Agreement. This agreement for the first time publicly conceded the principle of discussing Spain's claim to sovereignty.

Although Britain reiterated its commitment to respect the wishes of the 30,000 inhabitants on the Rock, the clear implication for Gibraltarians was that their future interests lay not in remaining an isolated colonial outpost but in a much closer relationship with Spain. This process of integration began with the opening of the frontier that followed the Brussels Agreement, and has proceeded apace with considerable benefits flowing from a boom in tourism and the service industries, which has in turn offset the run-down in the old dockyards.

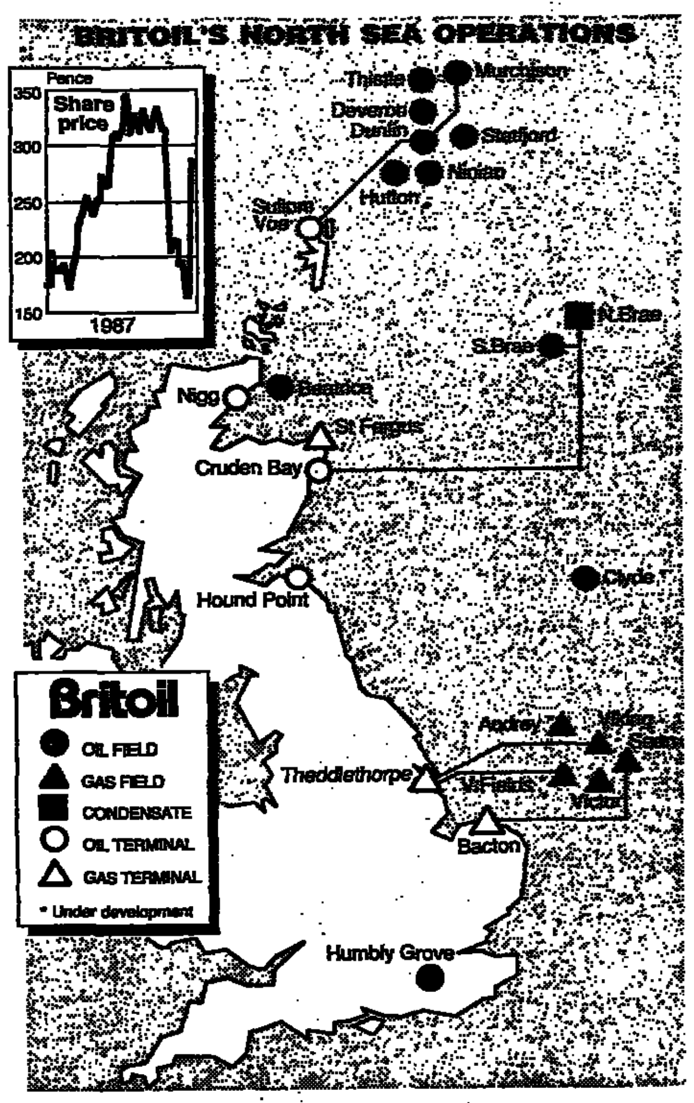
Spain showed commendable patience in its dealings over Gibraltar until European air fares came up for deregulation last year. Madrid then used the occasion to press for joint use of the airport (built on an isthmus, separately disputed, between the Rock and the mainland). Britain went as far as it could to accommodate the Gibraltarians without prejudicing the operations of the European Community machinery and its relations with Spain.

National interests

But last week's agreement with Spain for joint use of the airport has been bitterly opposed in Gibraltar, and Sir Joshua himself had expressed reservations. Gibraltarians have been given the right to exclude themselves from the air deal, and the pros and cons of doing so will be the main issue in the forthcoming elections. If the deal is rejected, the Spaniards will be denied joint use of the airport — which they do not especially want for anything other than political reasons. But Gibraltar will lose substantial benefits accruing from the European air agreement - direct benefits in the form of cheaper air fares, indirect in the development of tourism and financial services.

Clearly the Gibraltarians are entitled to make the latter choice, as they are entitled to insist on retaining British sovereignty. What they cannot expect is to be compensated for their resulting impoverishment at the expense of the UK taxpayer. As the people of Hong Kong could tell them, there are in practice bound to be limits to the demands that small and far-flung populations can make on the resources of a middle-sized European power with much more pressing national and regional interests to consider. And the people of Hong Kong, far more numerous than the people of Gibraltar, face a much more uncertain destiny in China than anything remotely to be feared from Spain.

Max Wilkinson looks behind BP's move on Britoil



TO CALL it revenge would be going too far, but British Petroleum's commando raid on Britoil's stock on Tuesday has certainly put the British Government into an embarrassing position.

Ministers will now have to decide whether they really are prepared to accept the consequences of the free market principles of their privatisation or whether their policy of nurturing an independent UK oil sector is more important.

BP's £225m swoop on the market brought it just under 15 per cent of the stock of Britoil, which is much the largest of the UK independents and owns more North Sea exploration licences than any other company. BP's tender offer of £3 per share to bring its holding up to 29.9 per cent is clearly intended as the preliminary to a bid for full control as soon as it can gain Government consent.

But will it succeed? The so called "golden share", which gives the government a veto over any take-over, was implanted in Britoil by Mr Nigel Lawson in 1982 when he was Energy Secretary, in response to fears that the newly privatised company might fall to an unfriendly predator. Since the share is held by the Treasury, it is Mr Lawson, now Chancellor of the Exchequer, who will have to decide whether the share should be used to rescue Britoil from BP's unwelcome embraces.

Since 1982 the oil market and oil company shares have been through a period of tremendous upheaval and the Government's stance has become notably less interventionist. Nevertheless the underlying arguments for nurturing independent oil companies and for using golden shares to protect them may still be quite strong.

Five years ago, when the Tories regarded the creation of a state-owned British National Oil Corporation as a socialist hangover, there was still a strong perception that development of North Sea reserves needed to be subjected to a careful national strategy. Market forces and the major oil companies could not be trusted entirely.

A major part of this strategy was to set up a counterbalancing force to the major oil companies, notably the Shell/Esso partnership and BP. A large number of small oil companies was created by the handing out of licences in successive rounds, with two main aims.

It was hoped to keep as much of the North Sea cash as possible circulating in the UK economy. Small UK independents would pay British taxes, employ British people and place orders with UK suppliers. Then perhaps they would use North Sea cash flow to expand overseas.

It was also hoped that smaller independents would be more imaginative and more manoeuvrable that the heavily bureaucratised international oil companies, so that oil would be discovered in places and quantities which would not interest the majors.

Britoil was to be the flagship of the independents, though at four times the size as its next rival, Enterprise Oil, the former oil arm of British Gas, it was less nimble than the rest of the flotilla.

The policy appeared for a while to be successful. Rising oil prices and a bull market in equities created a thriving throng of profitable companies in the North Sea. Britoil, with its highly favoured position as a state company in the early licencing rounds, built up strong reserves which are conservatively put at 1bn barrels of oil, and which might well turn out to be 20 or 30 per cent more.

BP tests the water

Nevertheless, the collapse of oil prices in 1986 down to $8 a barrel exposed the weaknesses of this strategy of spreading licences among such a large number of independents. Several, including Britoil, which had made ambitious plans to expand operations overseas, were forced to cut back sharply. The combination of lower oil prices and a fall in their stock market valuation raised questions about the survival of many of these companies. Although they gained a respite in the first half of this year, the collapse of stock markets and renewed uncertainty about oil prices have revived the old fears.

Indeed most of the UK independents now find that a significant block of their shares is owned by a larger company. Britoil is almost the last to go this way, probably because the golden share was thought to be a talisman against predators, even though the company was widely regarded as undervalued in recent weeks.

The Government must therefore face the question whether its policy of fostering such a diverse independent sector was wrong, in an industry where huge investments, high technical overheads and long lead times have long favoured the big battalions. In an era of volatile markets when the exploitation of the North Sea is becoming more complex and more expensive, with large abandonment costs to be met, it is arguable at least that Britain's best interests are served by leaving the job to the big batallions.

That is what the stock market seems to have been saying, and what BP is now proclaiming through a loud hailer. On the other hand if the Government wants anything of the independent sector to be left, it should do what it can to protect Britoil and the next biggest British independent, Enterprise, both probably large enough to survive in a more hostile environment and both protected by golden shares (though Enterprise's expires at the end of next year).

BP will doubtless argue that the Government no longer has the right to act as guardian to a private sector oil company after the bungled affair of the sale of state-owned BP shares this year. That £7.2bn offering pitched with extraordinarily inept timing on the crest of a stock market's collapse left even the mighty BP vulnerable to takeover. It is still highly uncomfortable with the 10 to 12 per cent stake which the Kuwait Investment Organisation has built up.

So, BP will say, if the Government believes in privatisation and the force of their market, let it be even handed and allow the market itself to decide how assets should be owned and deployed.

If it is able to shift the argument to that political ground, BP should have a fairly strong case. For Britoil has taken a long time to free itself from the bureaucratic legacy of being a Government department. For several years after moving into the private sector it remained heavily over-manned. Its policy of expanding by exploration rather than acquisition was seen as unadventurous, and excursions into the US turned out to be ill-judged.

It behaved much less like a nimble independent than as the exploration and production department of a major oil company; although it can boast some solid achievements it does not have any major discoveries to its credit apart from the Clyde field in the central sector of the North Sea. In the last two years, under the spur of lower oil prices and an uncertain equity market, the company has made considerable efforts to become slimmer and fitter. Under the leadership of Mr David Walker, an Australian and a former BP man, it shed 1,000 people, or a third of the staff from its glamorous new Glasgow office. Although exploration and development expenditures were severely cut in 1986, it is still able to go ahead with most of its North Sea developments.

BP's argument no doubt will be that the pace of change at Britoil is still far too slow. With its much larger size, the protection of its downstream operations and strong cash flow from its Alaskan oilfield, BP would be in a position to accelerate the pace of exploration in a lot of Britoil's prime North Sea acreage.

Besides that there is a strategic argument which might appeal to the Government. BP would achieve the coup of picking up 1bn barrels or more of proven reserves at only about $2 per barrel, much cheaper than what the big international oil companies were regarding as bargains earlier this year.

Moreover, the extensive acreage in the North Sea would be especially valuable in combination with BP's own licences. The combination would make BP the largest North Sea operator. It would greatly strengthen its position vis-a-vis British Gas, which has a virtual monopoly over the purchase of North Sea gas, in negotiating the development of gas fields and would be a boost to its plans to develop a central North Sea gas pipeline.

The move would also consolidate BP's strategy of concentrating on the oil and gas business which it knows best and shedding peripheral activities. Although the total acquisition for around £1.5bn would not be enormous in comparison with BP's total size, it would confirm its reputation for being easily the most aggressive of the major oil companies.

Since BP is, after all, British, ministers may not mind this. However they will also have to consider Britoil's deep unhappiness at the prospect of being carried off by a predator who, as one analyst put it, "sneaked up on the blind side, when everyone else thought a bid would be offside". Maybe, despite its denials, BP knows something about ministers' thinking which nobody else knows.

THURSDAY BOOK REVIEW

Regenerating The Inner City
Glasgow's Experience

Edited by David Donnison and Alan Middleton

Routledge & Kegan Paul, £22.50

INNER CITIES have been buzz words in the UK since Mrs Margaret Thatcher turned to the TV cameras on the night of her June election victory and said: "We must do something about the inner cities."

Uppermost in the Prime Minister's mind was the intention that the Conservative Party should break the last citadels of Labour power in Britain's big northern cities. That meant winning over the residents and rehabilitating the most derelict parts.

Those who thought that Mrs Thatcher and her ministers were going to produce instant solutions have been disappointed. There has been a lot of ministerial talk, even a few visits by the Prime Minister to carefully selected sites, but so far no new policies and no commitment to the amounts of public money that many commentators say are essential for real impact on the problem.

The policy approaches can be divided into bottom-up, which encourages residents to play a part in the physical renewal of their areas (exemplified in the urban task forces set up by the Government); and top-down, which is broadly property-led and centres on urban development corporations.

The story of the regeneration of the east end of Glasgow, told in a series of essays edited by David Donnison and Alan Middleton, points to the pitfalls and achievements of probably the biggest single inner city programme in Europe. It is the only comprehensive renewal exercise which has been running long enough to provide lessons for those now tackling the problem.

The book has its shortcomings. Written by academics and based on extensive research into such areas as jobs, housing and transport in this part of Glasgow, it lacks the commercial perspective of the private sector which is a critical constituent of the Tory approach. Nevertheless, it should be read by the ministers in the Cabinet committee on inner cities.

The Glasgow Eastern Area Renewal (GEAR) project started in 1976. The east end had sunk from a position at the heart of Glasgow's thriving economy into the most devastated and derelict quarter of a city in decline. Between 1951 and 1981, the population dropped from 145,000 to 41,000, the result of industrial closures and some of the biggest slum clearance projects in the world. The people left behind were unskilled, unemployed, elderly and generally those who put a higher than average demand on social services. In 1977, for instance, only 40 per cent of household heads were working.

The impetus for GEAR came with the first recognition by government that the cities needed help — the White Paper in 1977 which modified regional industrial policies to accommodate the inner city emphasis. But it was not enough. Ten years on, there has been further decline. Over the next few months, ministers will announce further policy modifications to place more stress on the inner cities.

Glasgow had the Scottish Development Agency, then newly established, to manage GEAR. And if there is one theme from this book, it is the importance of this agency and the Scottish housing agencies in coordinating the project with the local authorities, Glasgow district and Strathclyde regional councils. The agency had urban renewal and job creation powers, the housing bodies the power to build and subsidise homes.

The urban development corporations in England have more powers than their Scottish counterparts — to obtain land, for instance — but they do not have the same remit to work with the local authorities. The authors conclude that the Scottish process may be slower, but believe it to be more effective.

The agency, by working with local training bodies and social services, also tried to give the residents of the east end a better lifestyle. They were regularly consulted and the people appointed to liaise with them have stayed the course so that new faces did not keep appearing at meetings. This contrasts with the experience in London Docklands, where the needs of the original residents have been largely overlooked in the process of attracting developers.

The private sector is important to GEAR, particularly in providing improved housing and new types of tenure. David Donnison, former chairman of the Housing Benefits Commission, says that Glasgow has shown that housing policy — "often regarded as a burden imposed on the productive economy for questionable welfare purposes" — can be a key factor in economic and social development.

But public spending, in housing as elsewhere in the inner city, has to lead the way before private investment will follow.

This much the Government has acknowledged in its urban policies. The trouble is that it is not prepared to match its ambitions with sufficient money. GEAR has shown that urban regeneration is a long-term process — certainly longer than the normal span of governments. And it has had a lot of public money — more than £300m to date. This has produced about £190m of private investment, which will increase. But for 10 years the Government has borne a gearing in Glasgow which it would not see as acceptable in other cities.

GEAR has been a "painful learning process", according to Richard Colwell, SDA director. Not enough of the new jobs in the area have been taken by people who live there. They need more encouragement to participate, and that means resources. But the project has given valuable lessons for the agency's urban renewal projects in other parts of Scotland. And the exercise has helped to give Glasgow the confidence to fight back.

Hazel Duffy

Men and Matters

The Halifax limbers up

Jim Birrell, aged 54, the man due to take over the top job at the Halifax Building Society, the country's largest, next August, is not a radical — though colleagues who have endured his brand of management may at times have thought otherwise.

Every Monday evening the Halifax's executives get down to a session of physical punishment which Birrell calls his "executive aerobics".

This fashionable form of exercise is the the most visible sign so far of the effect on his management thinking of a six-month stint at Harvard Business School last year.

It is also a warning to the world that the Halifax, far from being a dinosaur of the financial world, intends to embark on the next stage of its development a leaner and fitter organisation.

However, in spite of this drastic sign of Birrell's determination, he is more of a traditionalist than a radical out to reshape the building society movement.

He admits to the most traditional of all management activities — playing golf badly — and demonstrates a keen respect for the society's history and culture.

He also believes strongly in the traditional mutual society status of building societies, confessing that it was as "something of an idealist" that he joined the Halifax at the in 1968. " A mutual measures itself by the service it gives its members not by profits — though it needs to make profits to grow," he says.

Birrell was born and brought up in Bradford, where he qualified as an accountant, and he has worked mostly in the north. A year as general manager in London in 1983 was something of an exception, but was a necessary step in his grooming for the top job.

The Halifax, though, is much more than a local northern institution. Its assets of around £30bn make it the largest mortgage lender in the country, a position it has maintained for most of this century. And with building societies' markets threatened by banks and others (societies' share of new mortgage lending has already slipped to 50 per cent), there is certainly room for more drastic thinking in the boardrooms of the largest societies.

Going public?

Like others in his position, Birrell is prepared to countenance the most radical possible change at the Halifax, should it become necessary — its conversion to a public company after this becomes legally possible at the start of next year. But it is not a step the society will take lightly.

John Spalding, who will retire as Halifax's chief executive next summer, has done much to shape the terrain across which Birrell will have to steer the Halifax. It was Spalding's recommendations on the future of building societies which led to the 1986 Building Societies Act and the regulatory environment that currently governs societies.

Birrell's vision of the future involves the society staying close to its twin roots of mortgages and retail deposits ("thrift and home ownership", he calls it). He believes there is much more mileage in the mortgage market, whatever the pessimists think.

But expansion into estate agency, insurance (forbidden at the moment) and unsecured personal lending are likely to make the Halifax less the simple retail-savings-and-mortgages business it is to day. A year and a half in charge of marketing has prepared Birrell for this drive. "It was very a important change for me, I became a marketing man rather than an accountant," he says.

Brothers in space

It had to happen. Trade union leaders from around the world will meet in the US next week to discuss union organisation in outer space.

The International (not yet intergalactic) Metalworkers' Federation is organising a three-day conference at a venue near Cape Kennedy, Florida, to plan strategy for the world of work in other worlds.

"Before today's children are old, we shall see metal extraction and assembly industries operating in space," says Herman Rebhan, the IMF general secretary. "Trade unions will be there to defend the interests of the workers employed in space stations."

The IMF points out that missile and space-related industries already employ 177,000 workers in the US, well over 10,000 in western Europe, 8,500 in Japan and 13,000 in India.

The conference, which will involve unions from 15 countries, will deal with pay, working conditions and the particular problems arising from manufacture and servicing of space transport vehicles.

Says Rebhan: "I would not like to predict which union will first open a branch office on the moon, but employers who think that in space they have at last found a union-free environment will be disappointed."

Shrinking trade

Headline-catching prison revolts are not the only problems besetting Home Office officials. They have also been worrying about a 15 per cent annual escape rate among a special class of jail inmates.

The escapees are prison service psychologists, of whom getting on for one-in-three have gone to work elsewhere over the past two years.

In an effort to arrest the shrink shrinkage, the psychologists are being offered an opportunity to raise their professional status at the service's expense by way of the first university course to be sponsored by the Home Office prison department.

The two-year part-time course, set up in just four months by London University's Birkbeck College, leads to an MSc. Those taking it will receive subsidised tuition costed at £12,000 a head, and will be allowed to spend up to half of their working day studying topics such as criminology, penology and "behavioural modification."

Dr Barry McGurk of the Home Office, who helped to design the course, hopes that the behaviour to be modified will include not only the outgoing tendencies of the service's existing psychologists, but also the resistance of other psychologists to taking up work in Britain's jails.

If the course attracts more recruits, he says, it would, "Help to improve our status in the prison service at a time when morale is low".

Taxing offer

Small wonder the Inland Revenue is offering paid time off for staff to study the details of its complex pay offer, announced this week.

Here's a sample clause: "For each span the pay range will consist of at least three points on a spine above the ma ximum of any pay scale on the span." Is that clear?

Deciding factor

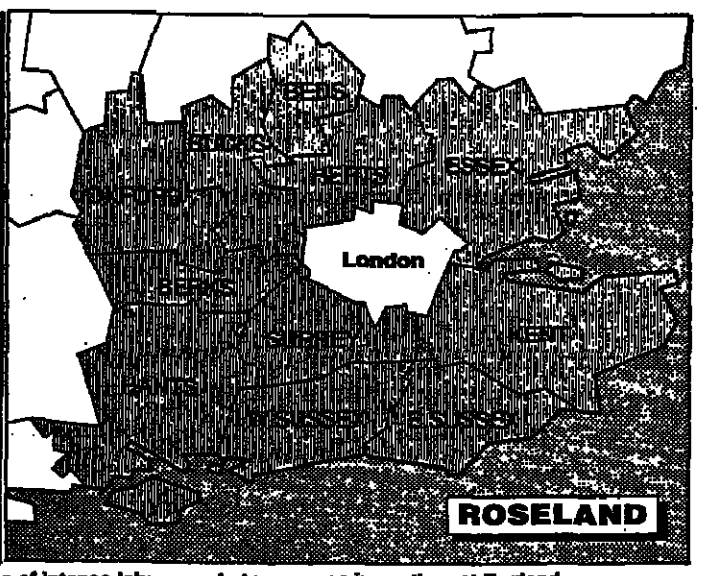
Henry Kissinger and Ronald Reagan are walking their dogs down Wall Street. They meet, stop, and talk.

Reagan: You know, Henry, I don't know why people are so edgy about the US economy. It's strong, it's in fine fettle and there's no need to worry. As president, you know I can't buy shares in industry and commerce. But, if I weren't president, I'd invest all my cash in the economy.

Kissinger: Of course, Ronnie. If you weren't president, I'd also invest all my money in the US economy.

Observer

ECONOMIC VIEWPOINT: by Samuel Brittan



A busy employment agency in London, one of the symptoms of intense labour market pressures in south-east England

A seasonal catechism for economic doomsters

HERE ARE a few propositions for anyone concerned with the real state of the economy as 1987 draws to its close.

1. *The world economy has been* remarkably resilient to the stock market crash. Either the effect of lower equity wealth has been much less than expected; or it *has been more than offset by* world-wide relaxation of financial policy, designed both to neutralise the crash and to put a brake on the dollar's fall.

2. *Pride of place goes to Japan,* which has both adjusted its cost structure to the rising yen and successfully boosted domestic demand. The latest gross national product (GNP) figures suggest that the official target of 3½ per cent growth in the year to next March will be exceeded.

3. In West Germany, there has been no shortage of demand stimulus. The discount rate drop confirms a marked easing of monetary policy. On the fiscal side what matters is not last week's package, but the cumulative effect of public spending increases and tax cuts, likely to take the general government deficit to more than 2 per cent of GNP in 1988-89, well above the British and within spitting distance of US levels. Any continuing sluggishness in West German growth reflects mainly some combination of structural rigidities, falling population and a – *very understandable* – preference for leisure or environmental improvement over measured growth.

4. Although the US economy might appear to be more vulnerable to *stock market influences,* both demand and output still appear to be going strong. The main weakness is in retail sales and construction. Total US employment rose in November alone by 327,000, or nearly 0.3 per cent. In the words of First Boston economist Albert Wojnilower, so far from suffering from *recessionary symptoms,* the US has virtually no unused resources left. "We can get more orders but we can't deliver." The most buoyant sector is exports, which are up 18 per cent year on year in volume terms. Whatever the highly volatile monthly trade figures for October, due today, may say, the US current account could *yet confound the pessimists* by turning round surprisingly quickly.

5. For all the alarms about deflation, there are far more signs *world-wide, and in individual* countries, of inflation. The Economist commodity price index has recovered all the ground lost since October 19 and stands 17 per cent above its admittedly depressed level of a year ago when measured in Special Drawing Rights. Key US interest rates are up to ½ per cent above their post-crash lows and could rise further even without dramatic policy changes, despite rather than because of advice from G7 Finance Ministers.

6. None of this removes the prospect of world recession so beloved by pessimistic market scribblers. But instead of coming directly as a result of the October crash, the likely route is more complex. Like generals preparing for the last war, the world's financial authorities have been determined to avoid the post-1929 mistakes of excessively tight money; and may have erred in the opposite direction.

Partly as a result, the prospect is of a *continued* upturn, amounting to boom in a few countries, with some inflationary symptoms. *A combination or* sequence of rising interest rates, policy tightening and a further stock market crash – perhaps very soon, perhaps later next *year – could set the stage* for a real recession threat later.

7. Within this world-wide picture, the British economy is highly bullish. If you scratch hard enough you can find a few slight signs of stock-market fall-out, for example, some London properties remaining longer on the market or weakness in a few characteristic yuppy consumer durables – stemming as much from earlier staff economies in financial institutions as from the crash itself.

But the overall picture is one of buoyant demand and output. The volume of retail sales in the quarter to last October was 6½ per cent above a year ago. The Treasury forecasts of 4 per cent real growth in 1987 and 3 per cent for the non-oil economy in 1988 are more likely to be exceeded than not to be reached. It is possible, as Tim Congdon, economist at Shearson Lehman, argues, that funds diverted from shares to building societies could increase mortgage lending further.

8. Meanwhile, there is upward pressure on the already too high average annual rise in earnings of 8 per cent. For the first time since the Winter of Discontent in 1979, industrial militancy and strike threats have been sparked *off by market, as distinct from* political, influences. Nearly all the Opposition parties and some of the Government's own backbenchers want to cut interest rates *even faster* than the Chancellor is compelled to do by sterling's buoyancy against other currencies, and to increase the budget deficit. Their advice is 180 degrees wrong *in current circumstances.*

9. Nevertheless the result of present wage pressures need not be the inflationary resurgence envisaged by Congdon. A more likely result is that expected by Professor Alan Budd in the County Nat West Review. Budd's estimate is not merely of an actual rise in manufacturing productivity of 6½ per cent in 1987, but of an underlying rise of 4 per cent per annum. Not only that; he suggests that if output growth slows or earnings accelerate, there would be scope for an even faster increase in productivity, achieved by labour shedding, which would, of course, slow down or reverse the present encouraging fall in unemployment.

10. This picture depends on maintaining the present D-Mark range, as a lower limit for sterling later in 1988-89, as well as an upper limit now. But there is no worthwhile alternative strategy in responding to pay escalation by currency depreciation, as even the most cursory reading of history should remind us.

The Roseland Syndrome

WHATEVER later threats there may be of further shake-out and job losses in the UK as a whole, the dominating feature now is that of intense labour market pressures in London and the south-east.

***These shortages have led to* a new acronym, Roseland. This stands for the rest of the south-east (apart from London). It refers to employers' growing habit of generalising to the whole area bonuses hitherto confined to inner London.**

Incomes Data Services (of 193 St John Street, London EC1) have unearthed numerous instances of the lengths to which employers will go to attract workers. A stores group has discussed the purchase of a London hotel to house staff. A transport firm has raised its London allowance twice in six months because of 100 per cent turnover at three of its five London depots.

Direct examples of the Roseland syndrome include companies extending London pay rates to Swindon, Reading and Staines. Another concern finds it easier to recruit in Stratford, east London, than in Stratford-on-Avon. A firm of distributors has reclassified some of its provincial sites as outer London and some of its outer London sites as inner London. Many *firms make discretionary payments* in key localities or for particular grades of workers.

Skill shortages reported cover not only financial and data processing staff, but butchers and bakers. Some banks and financial institutions have added to the normal London allowance a special inner London supplement and have initiated a Roseland allowance for the periphery. Organisations listed by IDS define premium areas in terms of miles from Charing Cross: centre, suburban, up to the M25 motorway. In some cases there are special allowances for Farnham and Guildford, or even Uxbridge; in others *for the whole of* Roseland.

Further ahead, the Channel Tunnel will both exacerbate skill shortages while it is being built and then link London *to some* of the tightest labour markets in the European Community.

The differential rise in housing costs has been both a response to wage pressure and an influence on pay levels. Since 1980 house prices have risen by 106 per cent in London, compared with 72 per cent *in the country as a whole* and 50 per cent in the north-west.

Of course, the shift towards the south-east, which is making it a high-wage, high-cost area, is a structural one, which would be seen irrespective of inflation or macroeconomic policies.

The general boom has, however, intensified the pressures to which Roseland would in any case be subject. In the British institutional setting, the south-east pay *and house price* increases are not a mere relativity change. For larger cost increases in the south-east are not compensated for by smaller ones elsewhere. They are an addition which tends to raise the general average.

The unsatisfactory working of the labour market is shown by the fact that, despite these horror stories of unobtainable workers, there are still 624,000 registered unemployed in the south-east. The percentage unemployment rate is 7.9 per cent in London and 6.8 per cent in Roseland. These are surely not all scroungers, but their problems are not those of inade*quate aggregate demand.*

In the north, the west and Scotland, where unemployment rates vary from 11 to 14 per cent, the matter is more straightforward. But as John Muellbauer explains in a Nuffield College, Oxford, paper, current planning and fiscal policies artificially inflate *the price of houses,* and make movement from the north to the south-east more difficult and expensive than it need be. In so doing they also raise the level of market rents, which will make it much more difficult to decontrol rented accommodation.

The community charge, so loved by the Prime Minister, will raise house prices and make every one of these problems worse. Whether the issue is put in terms of unemployment or inflation or more basic objectives, Muellbauer is right to call the poll tax "one of the most badly thought-out policies in some time"; and much worse than the severest of the political critics has realised.

Lombard

Unaccountable poll tax

By Martin Wolf

FEW, apart from members of the Thatcher Government, have ever doubted that the Community Charge violates accepted canons *of fairness, leaving aside its* many adverse economic effects. But there is another argument: accountability. "Of all the arguments for change this is the one which people do not seriously challenge." So wrote Mr Nicholas Ridley, the Secretary of State for the Environment, in defence of the Community Charge in an article published in *The Times on December 4, 1987.* But the argument needs to be challenged, because it is wrong.

According to Mr Ridley, "The Community Charge is a sort of pricing mechanism which regulates people's demand for services with their willingness to pay for them. Few argue that it is unfair for high-street shops to *charge everyone* the same for goods on sale. A Community Charge for local services is fair because we all choose to pay for the policies of the council we *vote for.*"

What has this to do with "accountability"? As Mr Ridley remarks, "when everyone pays something towards the cost of services, *the inefficient* and unnecessary will seem far less attractive." Electors will, it is hoped, vote in accordance with their economic interests and so *provide the curb on council* expenditures sought by central government for many years.

But do "we all" choose to pay for the policies of our councils? *Surprisingly* (given the source), the argument is an example of unreflecting collectivism. Individual voters can only determine the outcome of an election if the *result would have been different* if they had not voted. In a large electorate, the probability of this happening is extremely low.

Suppose that the difference between the Government's view of what the Community Charge should be and the actual charge is as much as £800 per person, as suggested for the London Borough of Camden. The maximum prospective economic value of a vote against the present council to the self-seeking elector is that sum (being the largest imaginable reduction in the charge) multiplied by the probability that one vote will change the policy. Under plausible assumptions, the economic value turns out to be considerably less than *the price of a box of matches.*

So why do people vote? After all, many people do not vote at all and, equally rationally, do not bother to inform themselves about *what their council* (or the Government) is doing. A part of the explanation for voting is that, even though the costs exceed the benefit to the individual, the costs are pretty low (except when the weather is exceptionally bad). What swings the scale are, presumably, feelings of civic responsibility.

But if this is why people vote, it is not at all obvious that they will vote against councils that the Government brands as wasteful. Why should anyone change his vote because government has manipulated local government finance to maximise the Community Charge consequent upon a decision by a council to spend more than the government thinks justified?

Once at the polling booth the elector is likely to respond to his sense of the appropriateness of a council's overall policy. He may even choose to vote indirectly against a government that has imposed what is, for the individual, simply a punishment (unavoidable without moving) for living under a council whose policies the government does not like.

"The electorate" is an analyti*cal abstraction, not an entity* that acts like a calculating individual. For the individual, voting in accordance with one's interest is almost never in one's interest. In fact, the narrowly self-seeking voter imagined by the Government will not even turn up to vote, his vote being virtually worthless from his own point of view. Individual incentives (other than those to vote) are more or less irrelevant to the outcome of the electoral process. If electoral results are to alter, therefore, it will be through a change in the electoral process itself. The simplest and most direct answer to the problem of unrepresentative councils is proportional representation. But *where would that leave the Government?*

Letters to the Editor

Athens' record recollected

From the Greek Ambassador

Sir, Your call for the pressing problems of the European Community to be solved now rather than later ("Time to eat the porridge," December 3) is eminently reasonable.

Rather less reasonable is your identification of Greece's next EC presidency as a likely pitfall. And the terms in which you express it - "... the Greeks, who performed disastrously last time they held it" - are not only offensive but also quite counter to *history as recorded at the time.*

Item: "The Athens government displayed a shrewd judgment of the possibilities and limitations of the EC presidency."

Item: "Greek ministers and officials overcame their lack of experience and in-depth expertise to produce creditable, and occasionally first-class, handling of Community business."

Item: "The Greek Minister of Agriculture made a name for himself as a skilful chairman able to seize opportunities which led to badly-needed agreements."

Item: "*The failure of the Athens summit* was not a Greek failure, for all governments were responsible."

A judicious culling of the best quotes available across the board? By no means. In fact: four extracts from a dispatch of December 29 1983 by the Financial Times's very own correspondent, John Wyles, who himself covered the Athens summit.

In commenting today, Sir, you ought surely to place greater faith in your reporting of yesterday.

S. Stathatos,
Greek Embassy, W11

Networked on Monday morning

From Mr Terence Jones

Sir, Despite his opening paragraph, it is obvious that John Brennan, your property correspondent ("New homes for old Wessex," December 5) has not enjoyed Network South East from Winchester. Monday's 06.56 left ten minutes late and arrived at Waterloo 15 minutes late. As we left Winchester 12 people were standing in my carriage, 34 on leaving Basingstoke; after Woking it was impossible to count. A normal Monday morning. Perhaps your correspondent would like to subject himself to several years of personal misery of this sort before extolling Winchester as a commuter's paradise.

Terence Jones,
Clovelly,
Lane End,
Winchester, Hampshire

If intended for publication, letters to the Editor should include, where possible, a daytime telephone number.

'The Drain' should be integrated

From Mr Robert G. Robinson.

Sir, I note the somewhat self congratulatory reply (November 19) from Mr Chris Green, the director of Network South East, to your correspondent Mr Gillon (November 14) concerning stock renewal on the Waterloo and City line.

What Mr Green has not done is justify why he proposes to perpetuate an unnecessary anachronism whereby everybody travelling from the south western suburbs to the City is obliged not only to change trains, but also to change from full size to tube size trains.

In view of the arrival of cross channel trains at Waterloo in 1993, Network South East should seriously consider the possibility of integrating the "Drain" into their full network. This could be done by:

(a) *Linking the Waterloo end* of the line to the existing Waterloo suburban network.

(b) Linking the Bank end of the line via a half-mile tunnel under old Jewry to the Great Northern terminus at Moorgate.

(c) Opening the "Drain" up to take full size trains.

(d) Building a new interchange station at Blackfriars to connect with the new Thames link services.

In Channel Tunnel terms such a project would be minute. The technology for drilling and enlarging tunnels in London is well understood. Network South East's predecessors executed a similar exercise at Euston 20 years ago. The following benefits would accrue:

(a) Passengers from the Waterloo corridor would get direct *access to the City without the* disruption of changing trains; and the terminal facilities at Waterloo would be relieved of pressure at peak periods.

(b) Passengers from the Great Northern corridor would gain direct access to the South Bank, Clapham Junction, Gatwick and beyond; pressure at Kings Cross would be relieved.

(c) Channel Tunnel passengers to onward destinations would be able to travel *in full size trains,* thus avoiding clogging the tubes with their baggage.

(d) *British Rail, in forging the* new Thames link, has discovered the economies of eliminating idle time as trains turn round at London termini. Integration of the South Western and Great Northern fleets would yield further economies.

New rolling stock alone, alas, indicates that Network South East does not really understand networks or the south east.

R.G. Robinson,
32 Arkwright Road,
Marple, Stockport

Travel adjusts to an equilibrium

From Mr Henry Law

Sir, David Starkie ("Time for roads to take their toll," November 18) has neglected a most important point: motorways and road improvements generate *traffic that would not* have otherwise existed.

In a congested metropolis such as London, the conditions of travel on the roads and on the best of the public transport alternatives adjust themselves to an equilibrium; at this equilibrium point, the door-to-door journey times for the average traveller by car are equal to those of the average traveller by the best public transport alternative. If roads are improved, people switch from public tranport to car, generating more traffic, until road speeds are back where they were before.

It follows that the only way to improve road speeds is to improve the speeds of the public transport networks. This means devoting some road space exclusively to buses; or possibly trams. The remaining road vehicles will then travel faster. Such a strategy would also require a comprehensive rail system of regional expresses and outer and inner suburban lines.

Unfortunately, the Department of Transport assesses rail investment and road investment in two different ways. Road schemes are judged according to cost/benefit principles, whereas rail projects are appraised on the basis of traffic receipts.

This is despite all the evidence that rail investment gives rise to external benefits, just as road investment does; both the M25 and recent investment by British Rail have contributed to substantial increases in land values.

The real problem with all infrastructure investment is that the Exchequer receives little in return. Hence, for instance, the British government's reluctance to sink money into the Channel Tunnel, and its unwillingness to pay for a high speed rail route capable of carrying Continental gauge rolling stock. If the Government could devise a method of recouping some of the increases in land value that such projects give rise to, there would be less reluctance to make the necessary investment and less need to make do with second-best solutions.

Henry Law,
19 Queen's Gardens,
Brighton, Sussex

Airline competition means bargaining

From The Rt Hon Edmund Dell.

Sir, You condemn the British Government on the basis of a suspicion that, in its attitude to an SAS interest in BCal, it may be seeing "its main task as securing through bargaining with other countries, the largest possible share of the world market for British airlines." How dreadful if this is true, how mercantilist, and how different from the behaviour of all other countries which regularly open their civil aviation markets unilaterally for the benefit of foreign, including *British, airlines.*

You found your criticism on the belief that acceptance by the Government of an SAS interest in BCal will stimulate competition and strengthen the European airline industry. There is no evidence for this proposition. The evidence is that international competition is stimulated only by hard reciprocal bargaining, and the British Government, if that is its position, is right not to depart from it.

Edmund Dell,
4 Reynolds Close, NW11

Expatriates could not buy shares

From Mr Bryan Cassidy, MEP for Dorset East and Hampshire West.

Sir, *You asked:* "What went wrong with Britain's tranche of the £770m offer for sale of shares in the Channel Tunnel?" (December 2).

One answer is that information about the shares was not sent to British citizens living in places like Brussels. These should have been a natural market for the shares. Yet when they replied to advertisements inviting them to apply for information about the share issue, it was refused.

All the privatisation issues have been the same. British citi*zens living elsewhere* in the EC have effectively been excluded because the merchant banks advising on these issues believe, mistakenly, that share information cannot be *sent* to British citizens who request it if they are living outside the UK.

Until now it has not particularly mattered, except to the disappointed investors. In the case of the Channel Tunnel issue the response would have been much improved if a more aggressive attempt had been made to market the shares outside the United Kingdom.

Not for the first time I am led to the conclusion that when in 1992 we have a liberalisation of financial services within the Community, it will be to the benefit of the French and the German financial institutions rather than the British.

Bryan Cassidy,
European Parliament,
97-113 Rue Belliard
Brussels

FINANCIAL TIMES

Thursday December 10 1987

BP share repurchase offer to close on schedule

BY PETER RIDDELL, POLITICAL EDITOR, IN LONDON

THE UK Government does not intend to extend the Bank of England's safety-net offer to repurchase partly-paid British Petroleum shares at 70p a share beyond the announced closing date of January 6.

With the fully paid stock at 250p yesterday, the implied value of the partly-paid shares, which carry the obligation to pay two further instalments of 105p each, is just 40p.

The decision means the Bank may well have to buy back the majority of the formerly Government-owned shares sold in the £7.2bn ($12.9bn) offer in late October unless there is a sharp improvement in the BP price over the next four weeks.

Ministers are nonetheless taking a relaxed view of what has turned into a highly embarassing setback for the Government's privatisation programme. They believe that, even aside from the Kuwait Investment Office's purchase of a stake in BP of at least 10.5 per cent, not all investors will want to sell their shares to the Bank.

The Treasury is assured of more than £1bn in net proceeds from the sale because of the gap between the original flotation price and the safety-net repurchase level. The Government then faces the absence of previously expected proceeds from BP of more than £2bn in each of the following two years as investors paid the remainder of the full purchase price. Ministers believe, however, that this can be made good elsewhere by, for instance, the sale of British Steel and some, or all, of the remaining Government stake in British Telecom.

There has been speculation in UK financial circles that the offer might be extended in view of the subsequent fall in share prices. The partly paid shares have recently been hovering a few pence above the repurchase level of 70p, compared with a flotation price of 120p, entirely because of the existence of the safety net. A comparison with the current level of fully paid BP shares would suggest a much lower price

Maggie Ford in Seoul sees renewed prospects for dialogue with the north

Korean reunification back on the agenda

IT IS no accident that the names of the political parties led by South Korea's two main opposition politicians, Mr Kim Young Sam and Mr Kim Dae Jung, contain the words peace and reunification as well as democracy.

For the winner of the presidential election next week has two tasks: to end military rule in the south and to end the division of the nation.

Both Kims believe the two tasks are interlinked and neither underestimates the problems entailed. Although the dream of unity is probably common to all Koreans, the ideological attitudes of the superpowers and successive Korean leaders have more than once turned the dream into a nightmare.

However, there is growing optimism that change is possible.

In 1945 The Koreans, expecting to be liberated after 35 years of exceptionally harsh occupation by the Japanese, suddenly found themselves not an independent democratic country, as they had hoped, but a divided nation occupied in the north by Soviet troops and in the south by the US army.

The Korean war perpetuated the division and authoritarian rule in a cold-war atmosphere persists to this day on both sides of the border.

North and South Korea are governed by military-backed regimes which rely on varying degrees of control, propaganda, repression and fear of the other to keep their populations in order, although the north is clearly the more authoritarian. Many analysts believe it has been in the interests of neither government to pursue serious dialogue and until recently the status quo may also have suited the superpowers.

However, a different environment appears to be emerging in the international and domestic arenas. The pursuit of democracy in the south has crystallised more clearly Koreans' desire for peaceful reunification, with all candidates including Mr Roh Tae Woo, the former general running for the ruling party, putting forward proposals. The hosting of the Olympic Games in Seoul next year adds immediacy to the idea.

Roh Tae Woo, standing for the ruling Democratic Justice Party. His involvement in the 1979 military coup has cast doubt in the minds of the voters and among his own supporters

Kim Young Sam, leader of the opposition Reunification Democratic Party, could be out in front in the presidential race because of support among the country's middle class

***Kim Dae Jung*, Peace and Democracy opposition party leader, resisted pressure to drop out of the race after attracting a massive turnout at an election rally in the country's capital**

Second, Pyongyang has recently let it be known that it is ready to pursue dialogue with the democratically-elected Government in the south, both over military issues and the Olympic Games. While such offers should be treated with extreme caution, the tone and style of approach could strike a chord with the two South Korean opposition parties, if not necessarily with that of the ruling party.

Third, the international and regional realities are potentially more positively inclined towards change in Korea than for many years. Reformists are in power in both the Soviet Union and China, while progress is being made between Moscow and Washington over arms control. In Japan, the realisation that Tokyo must take its place as a responsible world power appears to be growing.

The future of Korea is inextricably linked to all four. The US has 40,000 troops and an exceptionally sophisticated arsenal, including tactical nuclear weapons, based in South Korea. It faces not only the Communist north across the border, but also Soviet forces and nuclear weapons in eastern Siberia. As in the Philippines, the US considers its presence in South Korea to be essential to the defence of Japan and the Pacific.

The Soviet Union, equally, has naval and air force arrangements with the north which buttress its position in the region. Although the north has not proved to be the same kind of ally for Moscow as the south has for the US, its role as a semi-friendly, if unpredictable buffer state should not be underestimated.

But perhaps the key nation in a position to assist any Korean initiative is China, an ally of North Korea with strong unofficial links with the south.

China has recently hinted that it would like to see a change in North Korean attitudes. It sent a strong contingent of athletes to the Asian Games in Seoul last year and is expected to attend the Olympics in force. Peking has said it wishes to establish official trade relations with Seoul, if Pyongyang agrees.

Trade between South Korea and China has now reached more than $2bn a year and unofficial high-level contacts between the two countries appear to be growing rapidly. Chinese leaders are reported to be keenly interested in the Korean economic system as a possible model for their own modernisation.

Many analysts looking at the conjunction of circumstances needed to allow Koreans to achieve peace and reunification doubt that it is possible, especially while Kim Il Sung, the North Korean leader, is alive. They point to the vulnerability of the country to outside events, such as the shooting down of the Korean Air Lines jetliner by Soviet fighters in 1983.

Last week's disappearance of a second KAL airliner near Thailand has prompted a swirl of speculation about terrorism and North Korean spies. No trace of the aircraft has yet been found and Pyongyang has denied any involvement in whatever happened.

The speculation, accompanied by widespread media coverage, has prompted the South Korean opposition presidential candidates to complain that the ruling party is using the presumed crash to stir up South Koreans' fears of the north. This could be expected to help the chances of Mr Roh in the poll.

The two Kims would say that while the threat from North Korea should not be minimised, it is the army's job to defend the country from such attacks, not to involve itself in domestic politics.

In the past few months, South Korean voters have developed a healthy sense of scepticism and a much stronger ability to detect the difference between truth and propaganda, at least in the domestic political arena. At the same time, they are acutely aware of the regional and superpower realities.

The outcome of the battle between their hopes and their fears about both democracy and reunification is likely to have a strong effect on their behaviour in the voting booth next week.

France reported to have sold Iraq jets

BY PAUL BETTS IN PARIS

FRANCE was reported yesterday to be planning to supply Iraq with 12 additional Mirage F-1 fighter jets and to help build a fighter aircraft repair and maintenance facility in Iraq.

The French conservative Government would not comment yesterday on the French newspaper reports, but Dassault-Breguet, the French aircraft group, acknowledged it was in talks with Iraq.

Dassault would not confirm that the talks were specifically about the sale of 12 Mirage F-1 fighters and added that no contract had been signed.

Iraq has sought for some time to buy additional Mirage jets to replace the aircraft destroyed or damaged in its war with Iran.

France, which, with the Soviet Union is Iraq's principal arms supplier, has sold 137 Mirage F-1 fighters to Iraq since 1977.

The disclosure of the possibility of new French arms sales to Iraq surprised diplomats in Paris since they coincide with France's current efforts to normalise relations with Iran and to secure the release of the three remaining French hostages in Lebanon.

Moreover, new arms sales would increase even further Iraq's large outstanding debts with France estimated at $6bn.

But there were also suggestions in Paris last night that the timing of the latest disclosures reflected the Government's desire to restore the balance in its Middle East policy in the wake of the recent developments in Franco-Iranian relations.

New arms sales to Iraq would underline France's continuing commitment to its traditional policy of supporting Iraq in the Gulf war. This is in spite of recent progress in its relations with Tehran following the release of two French hostages in Lebanon and the exchange of diplomats between the two countries which ended the "embassy war" between Paris and Tehran.

A statement this week by Mr Andre Giraud, the French defence minister, that France was not planning to reduce its naval task force in the Gulf also appeared to confirm France's commitment to its traditional policy in the Middle East. There had been suggestions last week that France would consider reducing its naval task force as an additional gesture to Iran to help secure the release of the remaining French hostages.

The latest disclosures also appeared to be directed at the French public, with the Government anxious to show that it was not making excessive concessions to the Iranian regime.

Indeed, the disclosures come barely 24 hours after the expulsion from France of 19 members of the Iranian Mujaheddin opposition movement and continuing reports of the concessions made by France to Iran to secure the release of two of its hostages, Mr Roger Auque and Mr Jean-Louis Normandin.

The Government has again vigorously denied that it paid a ransom or supplied military spare parts to Iran as part of the recent hostage deal. It has, however, confirmed that it was negotiating a new payment towards settling Iran's $1bn financial claim against France.

Apart from the financial claim, Iran has pressed France to stop supplying arms to Iraq and to release Mr Anis Naccache, the leader of a terrorist group who was imprisoned in France after a failed assassination attempt against Mr Shapour Bakhtiar, the former Iranian Prime Minister.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	14	57	Dubrovnik	R	8	46	Malta	S	20	68	Rhodes	C	18	64
Algiers	F	20	68	Edinburgh	C	2	36	Manchester	S	1	34	Rio de J'o	C	30	86
Amsterdam	S	-2	28	Faro	F	17	63	Manila	S	31	88	Rome	F	12	54
Athens	F	20	68	Florence	F	8	46	Melbourne	F	17	63	Salzburg	S	-5	23
Bahrain	S	20	68	Frankfurt	S	-2	28	Mexico City	S	25	77	San Francisco	C	14	57
Bangkok	C	28	82	Funchal	S	19	66	Miami	C	22	72	Seoul	C	8	46
Barcelona	Fg	10	50	Geneva	Sn	-1	30	Milan	C	3	37	Singapore	S	31	88
Beirut	-	—	—	Gibraltar	F	17	63	Montreal	C	0	32	Stockholm	Sn	2	36
Belfast	S	1	34	Glasgow	C	-2	28	Moscow	C	-2	28	Strasbourg	S	-3	27
Belgrade	S	-4	25	Guernsey	S	4	39	Munich	S	-7	14	Sydney	F	24	75
Berlin	C	-6	21	Helsinki	C	-9	16	Nairobi	F	27	81	Taipei	S	22	72
Biarritz	C	7	45	H. Kong	S	19	66	Naples	R	14	57	Tangier	F	17	63
Bombay	S	32	90	Innsbruck	C	-3	27	Nassau	R	24	75	Tel Aviv	F	21	70
Bordeaux	C	2	36	Inverness	C	4	39	New Delhi	S	21	70	Tenerife	F	22	72
Brussels	S	-3	27	Islamabad	S	22	72	New York	S	6	43	Tokyo	R	9	48
Budapest	S	-1	30	Istanbul	R	8	46	Nice	C	11	52	Toronto	R	6	43
B. Aires	-	—	—	Jakarta	R	33	91	Nicosia	C	19	66	Tunis	F	18	64
Cairo	F	26	79	Jersey	S	3	37	Oporto	S	13	55	Valencia	F	12	54
Cape Town	C	20	68	Jo'burg	F	27	81	Oslo	C	-1	30	Venice	F	3	37
Caracas	C	29	84	Lima	-	—	—	Paris	S	-2	28	Vienna	S	-4	25
Casablanca	-	—	—	Lisbon	F	15	59	Peking	S	1	34	Warsaw	S	-2	28
Chicago	C	8	46	London	S	4	39	Prague	S	-5	23	Washington	C	6	43
Cologne	S	-2	28	Los Angeles	S	10	50	Reykjavik	R	8	46	Zurich	C	-6	21
Copenhagen	C	3	37	Luxembourg	S	-4	25								
Corfu	F	19	66	Madrid	F	12	54								
Dallas	S	6	43	Majorca	F	13	55								
Dublin	F	5	41	Malaga	F	16	61								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Euphoria diluted

Continued from Page 1

and go to work."

Others were making a similar point. How were the nuts and bolts negotiations going? Behind the scenes, were tensions rising over the differing interpretations of the Anti-Ballistic Missile treaty, the Soviet presence in Afghanistan or, from the American perspective, lack of co-operation in the Gulf?

Perhaps not...yet. But the American people, as well as the negotiators, will have to come down to earth from the euphoria created by a President who, as one Administration official told the New York Times, "believes what he does with Gorbachev will make or break him."

Conservative Republicans, the sort who last week were referring to Mr Reagan as, in Mr Howard Phillips' words, "a useful idiot" who has become a tool for Soviet propaganda, are reminding anyone who will listen that history repeats itself as farce.

Mr Pat Buchanan, the former White House communications chief, wrote yesterday that "the Spirit of Washington' may envelope the city today, but this too shall pass away."

"The year after President Dwight Eisenhower and Mr Nikita Khrushchev ushered in the 'Spirit of Geneva' in 1955, Soviet tanks rolled into Budapest. The 'Spirit of Glassboro' when President Lyndon Johnson and Mr Alexei Kosygin met in 1967, did not survive the Soviet invasion of Czechoslovakia. Six months after President Carter kissed Mr Brezhnev in Vienna, the Soviet tanks rolled into Afghanistan," he wrote.

The opening of the summit is reminding observers, however, of Mr Henry Kissinger's warning about the tendency of Americans to become manic depressives in their attitudes towards Moscow, swinging from euphoria to gloom in a way which makes it difficult to pursue a persistent and logical policy towards the Soviet Union.

Perhaps, on this score, the opinion polls are reassuring. Mr John Martilla, of the polling firm Martilla and Kiley, points out that while the polls show Mr Gorbachev is popular with Americans, this is in comparison with other Soviet leaders.

The same polling data shows that Mr Gorbachev's popularity is not being translated into a benevolent view of the Soviet state. This suggests that it is not only conservative intellectuals who remember the past and are therefore wary of the present.

If so, this is reassuring news, not only to an Administration which could be in the process of building too many false hopes but also to Mr Gorbachev. For if he needs rapprochment with the US to help achieve reform at home, then this interdependence means that too fickle an American public opinion is a threat to him too.

The question which will will remain when Mr Gorbachev leaves Washington will not be the one Mr Shultz wisely ducked, "Can you trust him," but rather how committed is he to changing the institutions and how successful is he likely to be in that endeavour?

Ice barons clash

Continued from Page 1

"superpremium" ice-cream is now worth more than $1bn and is growing at a lucrative 30 per cent a year. In New England, it has captured 15 per cent of the ice-cream market and in New York City 24 per cent. The two guys from Vermont now rival Haagen Dazs and Frusen Gladje , the big players in superpremium ice cream.

The names are fake. Neither company has been any nearer Scandinavia than, respectively, the Bronx and suburban Long Island. Both brands are owned by large food conglomerates: Pillsbury, with 1987 sales revenues of $6.1bn and Kraft, with 1987 sales of about $11bn, respectively.

In 1984, Pillsbury, whose Doughboy trademark dominates the US market for baking flour, tried to force distributors in Massachusetts and Connecticut to stock only Haagen Dazs. Otherwise they would be cut out of Haagen Dazs, which is by far the most popular luxury brand with sales of $175m. But this strategy, known in the trade as "exclusivity," backfired.

Jerry Greenfield staged a one-man picket of Pillsbury's headquarters in Minneapolis. His company handed out bumper stickers saying: "What's the Doughboy afraid of?" The company's army of supporters bombarded Pillsbury with letters. At the end of a bruising nine-month campaign, Pillsbury settled an anti-trust suit in March 1985, promising not to "coerce any distributor or sub-distributor not to deal with Ben & Jerry's."

This autumn, Haagen Dazs has again tried to put pressure on sub-distributors and Ben & Jerry's won an injunction to stop them in a Boston court two weeks ago.

Once again, Pillsbury was obliged to promise not to lean on any distributor in the two states which stocked Cherry Garcia. The lawsuit was put on hold. But if Pillsbury tries to put on pressure anywhere else, Mr Cohen warned mildly last week, "we will reopen the proceedings in the pending Massachusetts lawsuit to redress those wrongs, just as we did in 1984."

According to Mr Barash: "We just want consumers to have a choice. Otherwise, it's like voting in a banana republic election."

A triumph for the values of the Woodstock era? A blow to the cynical manipulators of public taste? Well, not entirely.

The first campaign against Haagen Dazs coincided with the stock offering needed to finance the Waterbury plant.

The current campaign also coincides with a financing operation, this time a $6m offering of bonds to expand the Waterbury plant by 50 per cent and build another plant at Springfield, Vermont, to make ice-cream puddings.

The prospectus for the bonds describes the 1984 lawsuit and the Doughboy campaign as "innovative marketing techniques to attract public attention to the company and its ice cream." Mr Barash admits that it was these techniques that brought Ben & Jerry's to national prominence and helped it expand into 35 states.

The company now has its own form of "exclusivity" agreement with Dreyer's, which is based in Oakland, California, for distribution in the state and some others. The agreement allows Ben & Jerry's to use other distributors if Dreyer's does stock other luxury brands such as Haagen Dazs.

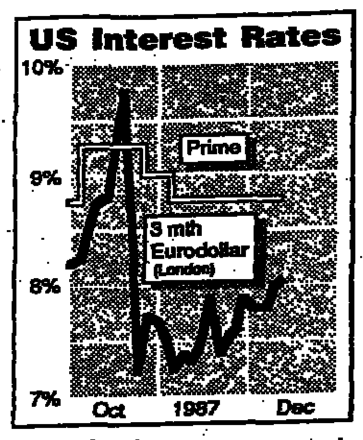
Ms Beth Bronner, vice-president of marketing at Haagen Dazs, responds sourly: "Ben & Jerry's is trying to create the impression that it remains a small, struggling ice cream company attempting to gain distribution when, in fact, they are widely distributed.

"These are two regular, but very rich guys."

THE LEX COLUMN

A week for the predators

The financial markets have been becalmed ahead of today's US trade figures, which have been billed as the most important economic statistic for the rest of the year. The release of Japan's November trade figures a few hours before the US figures for October is likely to confuse the interpretation. But the fear is that worse than expected US trade data will precipitate another sharp sell-off in the dollar, which will be exacerbated by the thinness of current trading volumes. The dollar may find some support from the firmer trend in interest rates, with three month Eurodollar rates having risen by half a percentage point over the past fortnight. However, it is far from clear whether this reflects a slight snugging of US monetary policy or a normal seasonal rise as financial institutions prepare to window-dress their balance sheets for the year end.



Sears

Allowing for the market's excitement in a week studded with takeovers, something is clearly happening with Sears. The shares jumped 12 per cent yesterday in heavy volume, and the market is now convinced that Robert Holmes a Court's 8 per cent stake has been sold on to a mystery buyer — someone other than Lord Hanson, at that. That would in itself involve an outlay not far short of £200m. Whether anyone will proceed to a full £2bn-plus bid is another question, but as BP and Britoil have discovered, this is also a market for building up big strategic positions.

If the rumours are true, Mr Holmes a Court will have realised one of his biggest assets without incurring the sort of financial pain which resulted from the recent sale of the Texaco stake. The proceeds from any Sears disposal should mean that he is close to meeting the planned A$2bn in asset sales which he has been obliged to undertake following the stock market crash, and the fire-sale may be almost over. There is even talk of the group beginning to take advantage of stock market opportunities again, and judging by yesterday's rise in the shares of Bell Group, there are some investors who believe that Australia's most famous financial wizard has not lost his touch.

But most of the money raised so far has been by affiliates of Bell Group and it is far from clear that Mr Holmes a Court's bankers will allow him to continue shuffling money around his financial empire with the gay abandon of earlier times. As the dust settles it is clear that Mr Holmes a Court will be focussing his attention on his two biggest remaining investments, BHP and Standard Chartered Bank. It is a prospect which will fill neither company's board of directors with much happiness.

Northern Foods

There is an apt symmetry about Northern Foods' relative share price performance over the past decade: first the steep rise of the wonder-stock, then the long decline to where it started. Along with its interim figures yesterday, Northern provided the final evidence that it is back where it started in operational terms as well.

In the course of its latest reorganisation, the company is enthusiastically rediscovering its roots: making money from declining markets, like milk and sausages, and looking for growth in the dedicated supply of fancier foods to the more adventurous retailers. There is also a renewed emphasis on the shirt-sleeves style of direct management which became overlaid by complexity during the disastrous forays into the US.

All this makes Northern a fairly typical case of the company which makes a mess of diversification, then divests, then has to bring the original business back to scratch. At this point, all too often, the same cycle starts again. But the company still has enough to do on its home businesses to keep it quiet for a year or two; and, although its zero gearing could make it a powerful cash bidder, it appears to take a gloomy enough view of the economy to believe that assets will be cheaper again a year from now.

Northern itself, of course, could still be a bid target. However, in relative terms, at least, it does not look especially cheap. Assuming the 7 per cent shortfall in interim profits is made good in the second half, the company is on the average market multiple, in turn reflecting its strong outperformance as a defensive stock since the crash. Predators could probably find cheaper pickings elsewhere.

Smith & Nephew

Smith & Nephew is unused to the limelight. A decade spent churning out 20 per cent earnings growth year after year left it with a reputation for tedious reliability, and yesterday's announcement of a 25 per cent rise in third quarter pre-tax was true to form. But since the crash, the market appears to have reversed its prejudices against Smith's medical and health care businesses, and the shares have outperformed the All Share index by a fifth.

The same principle which has made brewers and grocers look good in a jumpy market has no doubt helped Smith: like food and drink, medical supplies will not suffer first in a recession. However, this does not explain why Smith has also managed to outperform its own sector for most of the past seven weeks. For unlike the pharmaceutical giants — which ought to be truly recession-proof given the independence of drugs spending from the economic climate — Smith's toiletries, personal hygiene and textiles businesses (it is a major denim supplier in the UK) could feel the pinch. In other words, Smith may not be as defensive as it looks; a reliable past need not be the same as a defensive future.

Asda

Asda's decision to hold on to Allied Carpets is embarrassingly at odds with its previous rationale for selling it. But with over £550m in the bag from the pre-crash disposals of MFI and the dairy business and net cash of £250m on the balance sheet, Asda can rub along without the £125m or so originally expected for Allied. The most striking aspect of the decision is the way it illustrates the cheapness of assets after the crash. It has evidently proved impossible to get a price which would provide enough interest income to offset the £11.5m or so the business could make this year at the operating level. From a predator's viewpoint, that looks like an argument for gearing up.

INTERNATIONAL APPOINTMENTS

Posts at newly merged Asea Brown Boveri

BY JOHN WICKS IN ZURICH

THE ASEA Brown Boveri Group, of Zurich, which commences operations on January 1 and was formed from the merger of the Swedish ASEA and the Swiss Brown Boveri electrical concerns, will have Mr Edwin Somm as chief executive for the Swiss group of companies.

The Swiss section will have Brown Boveri's existing headquarters in Baden and cover some 20 operating units, most being active in world markets.

Mr Somm will also belong to the board of the Baden company Asea Brown Boveri AG, to be headed by Dr Thomas P. Gasser, who is also deputy chief executive officer of the new group. Dr Bernd H. Mueller-Berghoff becomes managing director of the Baden-based holding company BBC Brown Boveri AG.

In the German regional organisation, Dr Eberhard Von Koerber becomes management chairman of the Mannheim company. Mr Bert-Olof Svanholm will be CEO of the Swedish regional organisation at former ASEA headquarters in Vaesteras.

* * *

AT THE Swiss chemical concern Ciba-Geigy, Mr Heini Lippuner, 54, is next May to succeed Dr Albert Bodmer as chairman of the executive committee.

Currently head of the company's dyestuffs and chemicals division, Mr Lippuner has been made deputy chairman of the committee with immediate effect. He joined Geigy in 1955.

At the same date, Dr Bodmer will be nominated for membership of the board of directors. He is foreseen for the post of vice-chairman of the board in succession to Dr H. Schramek, who is due for retirement.

CBS acquisitions overseer leaves to join buyout fund

THE CBS disposal of its major non-broadcasting assets over the past 14 months was followed last week by the departure of Mr Nathan Snyder from his post of vice-president at the company for new pastures.

He served as overseer of mergers, acquisitions and divestments undertaken by the CBS group, and has left to become president of Veronis Suhler and Associates' leveraged buyout fund, VS and A Communications Partners L.P.

The fund will be comprised of $50m in institutional and private equity capital. It will seek to invest in radio, television, magazine publishing, cable television, book and newspaper publishing, entertainment programming, and business information properties.

Mr Snyder said it would take about two years to raise the capital for the fund, and he was not sure when the fund's first deal would be arranged.

Mr Laurence A. Tisch, 64, took management control of CBS in a boardroom coup in September last year, and subsequently became its president and chief executive officer. He is also chairman of Loews, which has a 24.9 per cent stake in CBS.

Under his direction, CBS assets built up in diversification moves spanning 60 years have been sold, with Mr Snyder in a key position in the negotiations. The recent sale of CBS Records to Sony for $2bn had taken hard bargaining and followed spasmodic talks during the past year.

CBS is left in a cash-rich position and essentially with its core broadcasting business, of which its television channels are being revitalised.

A strategic planning group for JP Morgan

A STRATEGIC planning and research group has been formed by J.P. Morgan, parent of Morgan Guaranty Trust, the fifth largest US banking concern.

Mr Robert G. Engel, group executive, has been named to head this new worldwide function.

Three other executives assigned new responsibilities are: Mr Douglas A. Warner III, executive vice-president, who succeeds Mr Engel as chief of the Corporate Finance Group; Mr David Band, another executive vice-president, who in his other position as chairman of Morgan Guaranty Ltd., J.P. Morgan's Euromarkets securities firm based in London, will focus on formulating securities strategy, strengthening client relationships and developing Morgan's equities activities outside the US; and Mr Eric Bourdais de Charbonniere, who will head corporate finance in Europe (includes UK, Eire and Scandinavia), Middle East and Africa.

A senior vice-president of Morgan Guaranty Trust, Mr Bourdais is being recommended to the board of directors for promotion to executive vice-president.

Sharon criticised for appointment of ex-army general

BY JUDITH MALTZ IN JERUSALEM

MR HAIM Erez, a reserve general in the Israeli Army, has been named managing director of Israel Chemicals, the country's largest Government-owned industrial concern.

The appointment has sparked widespread criticism, as it is believed to have resulted from Mr. Erez's close ties with the country's controversial Minister of Industry and Trade, Mr Ariel Sharon.

Ever since assuming his current post, Mr Sharon, who was Defence Minister during Israel's Lebanon war, has appointed many of his proteges on to the boards of the Government's companies.

Mr Erez replaces Mr Yoram Ziv who, it is thought, stepped down because of a row with the company's chairman, Mr Rafi Eitan, another Sharon appointee.

The newly appointed managing director comes fresh from the army, where he was serving as Head of the Southern Command. His limited economic background is viewed as an impediment to managing a concern with annual turnover typically in the region of US$1bn.

Although hit by falling world phosphate prices, Israel Chemicals managed to end its latest financial year in profit.

Morgan Guaranty appointees

THE FOLLOWING appointments were made at Morgan Guaranty Ltd. in London: Mr W.A. Gubert as deputy chairman, Mr. J.I. Cohen managing director – sales, Mr J.P. Cook managing director – syndicate, Mr J.P. MacHale managing director – corporate finance, and Mr H.G. van Riel managing director – trading.

*

THE SUPERVISORY board of leading West German banking concern Deutsche Bank has appointed Mr Rolf Breuer and Mr Georg Krupp full members of the bank's management board with immediate effect. They were previously deputy board members.

Appointed deputy members of the management board from the beginning of next year are Dr Michael Endres, aged 50, Dr Juergen Krumnow, 43, and Ms Ellen-Ruth Schneider-Lenne, 45.

*

ZURICH INSURANCE has named Mr Rolf Hueppi to succeed Dr Heinz Portmann as management chairman on January 1 due to the latter's retirement.

Mr Rolf Haenggi will at the same time become a general manager and deputy management chairman, and Dr Rolf Schaeuble a general manager.

Accountancy Appointments

INTERNAL AUDIT MANAGER

Leisure Sector

London £25,000 to £30,000+car+benefits

Our client is a major player in the leisure and travel industry. It has expanded rapidly in this highly competitive field and gained a reputation for entrepreneurial management and aggressive marketing.

An Internal Audit Manager is now required, who will report to the Group Finance Director and assume responsibility for the review and evaluation of the Group's financial and operational systems and requirements. This is a high profile role, with contact at Board level. In addition to the more traditional audit functions, it will involve considerable trouble-shooting and a range of ad hoc exercises.

We are seeking a young and energetic individual, who should ideally be a qualified accountant. However, a lawyer or an M.B.A. with appropriate experience would also be considered. Previous commercial experience is preferred, preferably gained in an organisation with international interests.

A confident, positive personality is needed with considerable initiative. This should be combined with first class verbal and written communication skills and strong analytical ability.

Please write in confidence with full career details, quoting ref. I3735/L to Valerie Fairbank.

KPMG Peat Marwick McLintock

Executive Selection and Search
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Head of Internal Audit

RoyScot Finance Group

Cheltenham *c.£30,000 + finance sector benefits*

The RoyScot Finance Group was launched in 1986, bringing together the specialist finance subsidiaries of the Royal Bank of Scotland and Charterhouse Bank. The Group provides a focus for a number of semi-autonomous trading subsidiaries, including an Authorised Institution under the Banking Act. Principal activities of the Group include contract hire, leasing, factoring, hire purchase, instalment finance and credit card services.

Working closely with the Group Finance Director, you will have an exciting challenge – setting up the internal audit function, recruiting and leading a team, and performing high level business reviews across the Group's activities.

You will be a qualified Accountant, in your early forties, looking for a demanding career move. Relevant audit experience will have been gained at a senior level in the financial sector, possibly with a finance house, or insurance company, or from within the profession, with experience of managing a major client in this sector.

You are self-motivated, energetic and possess the charisma to undertake a high profile role within this demanding area.

The exceptional remuneration package includes subsidised mortgage, non-contributory pension, quality car and profit related bonus.

Please reply to Alison Hawley in strict confidence with details of age, career and salary progression, education and qualifications, quoting reference 5078/FT on both envelope and letter.

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Management Consultancy Division
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LONDON APPOINTMENTS

Planning Manager

to £32,000 + car + bonus

A young (to 32) qualified accountant, with a record of achievement in a 'blue chip' environment, is sought by a major player in the retail sector to undertake a key role in formulating corporate plans at a senior level. Managing a team of analysts, you will be responsible for producing a sophisticated management information package for the board and it is envisaged that this position will lead to a divisional Financial Director appointment. Ref DFP 3080

Financial Director

c£30,000 + car

This medium-sized advertising agency, holding an ever-increasing number of prestigious, household-name accounts, has recognised the importance of strict financial control and of enhanced management information within its growth programme: it now requires a young – aged 25 to 30 – qualified accountant to develop this critical, high-profile function at board level. You will be directing systems improvements and accounts preparation and outstanding prospects apply. Ref PSW 3075

To find out more about these appointments, or the range of opportunities currently available, please contact Stewart Wright, Manager – Accountancy Appointments.

Telephone 01 408 1694 (out of hours 01 851 2502)

Management Personnel
2 Swallow Place, LONDON W1R 7AA.

APPOINTMENTS ADVERTISING

For further information call 01-248 8000

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Special Projects and Investigations

MEMOREX

West London c.£25,000+car

Memorex is the world's leading supplier of plug-compatible computer peripherals, providing IBM mainframe users with high quality hardware. It is a $1bn multi-national company with 25 subsidiaries worldwide.

Following their recent management buy-out and the creation of a new independent Memorex, the company has transferred its world financial and administrative headquarters to Europe. This exciting development has created the need for a new high calibre group finance team which can take the lead in establishing a sound, commercially driven finance function for this fast moving, hi-tech business.

The Special Projects and Investigations department has a high profile role working closely with senior line and functional management to ensure the maximisation of business efficiency. Work is typically of a one-off nature with a high degree of autonomy and will involve internal consultancy, operational reviews and specific projects. European travel will be an integral part of the role. Experience in the department is recognised as ideal preparation for further career progression which is likely to occur within 18 months.

Candidates will be recently qualified accountants, probably ACA, who are looking to enhance their careers in a stimulating environment. As well as first-class technical skills, a knowledge of US GAAP and SEC reporting would be an advantage. Amongst the personal skills expected will be a willingness to take on new assignments, good analytical skills and an enquiring, persistent approach. Because of the range of contacts and the requirement to act as a company ambassador inter personal abilities must be of a high order.

Please reply in confidence, giving concise career, personal and salary details to:

Brendan Keelan, Ref. ER 975,
Arthur Young Corporate Resourcing,
Citadel House, 5-11 Fetter Lane, London EC4A 1DH.

Arthur Young Corporate Resourcing

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Diverse Backgrounds

Ben Thompson-McCausland
Age: 49 years

His combination of leadership skills in the City, broad commercial experience, and keen perception of the future of the finance industry has created the dynamic outlook now lifting the society to new heights of achievement.

Now National & Provincial Managing Director

Kenneth Andrew
Age: 42 years

Having held several key marketing posts within a big-four clearing bank, he moved on to become the Vice President and Marketing Director of an international bank. Here he won recognition as the driving force behind a highly successful European consumer business— advancing from inception to profitability within a year.

Now National & Provincial Commercial Director

Terry Carroll
Age: 39 years

The youngest member of the team, he started his career as a Chartered Accountant, before moving to a leading society as Management Accountant. He then joined a top London stockbrokers to establish a new department dealing in gilts with Building Societies. He then left to become Treasurer with one of the world's largest Building Societies.

Now National & Provincial Finance Director

Same Destination

National & Provincial is one of the largest financial services groups in the UK. We are also one of the most ambitious. The recent appointment of three Executive Directors has established a young, innovative decision-making team, who between them bring to the organisation a wealth of experience in Merchant Banking, Insurance, International Banking and Treasury. Having initiated a review of our business, the result is an aggressive growth programme which harnesses these resources and will strengthen our position as a major provider of personal financial services.

National & Provincial will effect these strategic changes by appointing high calibre individuals to the Treasury and Accounts Functions.

Entrepreneurial Accountants

We are restructuring the Accounts Function, to provide for new financial control and reporting requirements and the production of detailed Management Information. Developments in our business are enabling us to recruit new skills within the areas of taxation, management and financial accounting. The necessary qualities? Analytical skills, inquiring minds, and the ability and determination to progress further in this rapidly developing environment. The necessary experience? Simply that of achievement as a qualified accountant in a relevant area, together with some commercial experience.

Management Accountant

You will develop integrated financial control systems to enable tight budgetary control; meet reporting requirements and provide detailed information on unit, product and customer profitability. Other responsibilities include: projections, forecasting and modelling; capital adequacy monitoring; capital investment decision analysis; evaluation of financial implications of Corporate Strategies.

Financial Accountant

As well as an important role in developing integrated control systems, your responsibilities will include: reporting to management, regulators and the public on a daily through to annual basis; production of statutory accounts and statements; routine bank, bookkeeping and payment requirements; liaison with auditors. In addition you will be required to develop and maintain systems of accounting for new business and the consolidation of subsidiaries and associates.

Taxation Accountant

Your main task will be for compliance and planning aspects of taxation including Corporation and Income tax, PAYE, MIRAS and VAT. There is a developing need to plan for and manage the taxation implications of subsidiaries, associates and overseas operations.

Treasury Management Opportunities

Recent changes to Building Society legislation have created new and exciting opportunities for the industry but only those teams who change their formations and tactics will benefit from the rule changes.

As a result the Society has adopted an innovative role to its Treasury Function which will evolve into Asset and Liability Management committed to managing the financial risks of the organisation's operations to achieve its corporate objectives.

This creates a number of exciting management opportunities which give the right individuals the chance to share in and influence the process.

We are seeking enthusiastic and committed individuals with skills that complement those of our existing team. To succeed, you should have experience in one or more of the following areas: Money Markets, Bond Markets, Off Balance Sheet or Capital Markets.

Applicants for these positions must be strong minded and relish change. In return, we are offering big opportunities with impressive salary packages, performance-related bonuses, and excellent long term career prospects. These positions are Bradford-based, so there are numerous advantages: cheap housing, excellent transport links, enhanced lifestyle and proximity to the beautiful Yorkshire countryside. The quality of life in Yorkshire has to be sampled to be appreciated, but we understand that if you are working in the South East, you may be reluctant to move North because of the differential in house prices which can lead to an inability to return South in the future. Because of this, we have structured a package that will not only calm your fears, but could leave you with that second home in the country in the unlikely event that you do wish to return South at some point in the future.

To enjoy success, National & Provincial style, please send full career details or telephone: Margaret Canning regarding the Accountants positions and Brian Morrison or Andrew Newell for the Treasury opportunities to discuss them in more detail. National & Provincial Building Society, Personnel Department, Provincial House, Bradford, BD1 1NL. Tel: 0274 733444.

National & Provincial

Head of Finance

c. £40,000+bonus+car — City

Our client is a small, newly established company, which has already achieved a pre-eminent position in its market. Owned by a major US corporation, its business, which is service and technology based, is about to embark on a period of dramatic and sustained growth.

A new position, reporting directly to the Managing Director, you will have two main areas of responsibility; firstly, the management of all the financial affairs of the business, including controls, reporting, cash management, company secretarial, legal and compliance matters. Secondly, and as important, you will play the key role in co-ordinating all aspects of business development, including critical feasibility study and project management of all the major changes which such dramatic growth will bring to the organisation.

A qualified chartered accountant, probably aged 30 plus, ideally you will have both line financial experience in a commercial environment coupled with some background in project management/management consultancy. Alternatively, you will have a strongly analytical approach to management and business issues, with a demonstrated ability to deliver practical solutions in a fast paced, informal environment. Self motivated, as well as a team player with excellent interpersonal skills, you will be excited by the challenge of a very broad management and financial role at the most senior level in a company being transformed by growth.

Please reply in confidence, giving concise career, personal and salary details to:
Sarah Orwin, Ref. ER 976, Arthur Young Corporate Resourcing, Citadel House, 5-11 Fetter Lane, London EC4A 1DH.

Arthur Young Corporate Resourcing

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This multinational is a world leader in major f.m.c.g. markets and it is expanding very rapidly on an international scale.

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Please reply in confidence quoting ref. L 344 to:

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Continuing sector growth has created additional opportunities for experienced Chartered Accountants who combine both mainstream audit and several years' experience of one or more of the major areas of insurance activity.

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International Financial Accountant

c £30,000 — Surrey

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To maintain strategic expansion in the international corporate marketplace the management team have *now recognised their need for international* financial reporting of an exceptionally high standard.

They require a *talented* financial accountant to help them achieve this aim. The brief will be to continue to develop sound systems to facilitate the quarterly reporting of aggregated results to US GAAP standards.

You will report directly to the Global Director of Finance and should have practical experience in inter*national consolidations and in* accounting for exchange differences. You must be able to work with *computers and be used to tight* deadlines. Ideally you will have a knowledge of foreign languages and foreign reporting requirements. There will be opportunities for some international travel.

It is likely that you will have trained with a "big 8" firm and be in your 30s. You will have to combine your technical *knowledge with an ability to motivate a* small professional team. The position offers excellent career prospects *throughout the world.*

Please reply, with CV and details of current salary, quoting MCS/4013 to:
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You must be self-motivated and have excellent commercial and personal skills to succeed.

In return we offer a highly competitive salary and first-class opportunities for career progression.

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FINANCIAL DIRECTOR

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c. £25K+car — Swindon

Kode International plc., a name well known *in* the computer industry, *is* entering an exciting new era of growth. Building on 25 years experience at the forefront of the industry we have recently merged three inter-related companies within the Group to create Kode Computers Limited.

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With our combination of experience, expertise and innovation, we are set to maximise the success of our new product range. We need a Financial Director with real management ability to make a positive contribution to our *future* growth.

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A fully qualified accountant, you'll have had management experience in a similar light manufacturing distribution environment.

You will also have well developed application experience, enabling you to take on overall responsibility for the company's *internal computer systems.*

In addition to the salary and company car you can look forward to all the benefits you'd expect from a successful high-tech company.

Qualified applicants are advised to send a *detailed C.V. to Hugh Thomas, Group* Financial Director, Kode International plc., Kings House, Bond Street, Bristol BS1 3AE.

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(c) The design and implementation of a comprehensive management accounting system, the review and updating of all internal control systems, the preparation of periodical management reports and liaison with the group's advisers which will require some knowledge of international taxation.

The successful candidate will need to have several years' experience with both major international banks and multi-national companies. Fluency in French would be of assistance but is not essential. Applications in the form of a letter and detailed curriculum vitae giving details of current remuneration should be forwarded quoting reference 8719 to:

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Corporate Treasurer

Major International Group

My client is a publicly quoted British Company whose annual sales exceed £250 million. The net assets exceed £330 million and are held in UK, Australia, Asia, Africa and The Americas. Reporting to the Finance Director, the Corporate Treasurer plays a significant role in the Group management structure.

The successful candidate will be required to maintain an established reputation for probity and financial acumen. He, or she will manage an extensive and varied portfolio of liquid funds. Considerable experience of foreign exchange management is essential as is familiarity with the Eurobond markets, note issues and loan negotiations.

Applications are invited from professionals with a reputation for competence and integrity, and wide experience of managing a £ multi-million portfolio. Due to the stategic importance of this appointment, salary is unlikely to be a limiting factor.

Write, with brief details of career to date, to **Neil Macmillan, Chairman, Macmillan Davies, Salisbury House, Bluecoats, Hertford, Herts. SG14 1PU. Tel (0992) 552552.**

Macmillan Davies
MANAGEMENT SELECTION

FINANCIAL DIRECTOR

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This is a key role and will have a major impact on the success of the group's expansion strategy in Europe and the US. Candidates, probably in their thirties, will have successful experience in a senior role in a well managed public company. The position requires someone with drive and energy and the personality and acumen to participate positively with the City and other advisers in corporate planning and acquisition strategy.

Applicants who will be chartered accountants, ideally with a degree or an MBA, must demonstrate these personal qualities together with a thorough experience of financial management, information technology and US accounting. We will seek evidence of a track record of responsibility and success together with the ambition and ability to grow further in an exciting and demanding environment as a member of a young and successful team of directors.

The executive remuneration package will reflect the importance of the role. It will include an attractive salary, bonus, equity participation, executive car and a relocation package.

If you feel able to offer the blend of personality and experience which will ensure success, please write, in confidence, enclosing a full C.V. to:

David Bannister, Executive Selection Division, quoting reference number L/804.

KPMG Peat Marwick McLintock
Executive Selection and Search
City Square House, 7 Wellington Street, Leeds, LS1 4DW.

Senior Management Potential? **Commercial Flair?**

Marketing Accountant

Mid Surrey — **To £21,000+Car**

Our client is a rapidly expanding £100m t/o subsidiary of a major blue chip plc, operating in the FMCG sector.

An opportunity has arisen for an ambitious, commercially minded accountant to join a small head office team with responsibility for all aspects of analysis and management information for a key business area. Working closely with marketing and other senior managers this will require active involvement in the business with responsibilities including customer and product analysis, profit planning and maximisation, budgets and forecasts and evaluation of business proposals. Prospects are excellent; the company will not recruit an individual without the potential for early and rapid promotion.

The successful applicant will be a qualified accountant, aged 25-28, with a proven record in a fast moving environment. Good interpersonal and commercial skills are of key importance. The company offers a highly competitive salary and benefits package, including relocation where appropriate.

If you can offer the ambition and potential our client requires please contact **Chris Sale on 0372 375661** (evenings and weekends **01- 622 5321**) or write to him at **Michael Page Partnership, Cygnet House, 45-47 High Street, Leatherhead, Surrey KT22 8AG.**

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BELOIT WALMSLEY LTD

Finance Director

Bolton — **£25,000 + car**

Our client, Beloit Walmsley Ltd. is a profitable export oriented £40m+ t/o UK subsidiary of the Beloit Corporation (USA) engaged in the design, manufacture and supply of capital machinery for the paper making industry.

They now seek to recruit a Finance Director to assume responsibility for the finance, data processing, company secretarial, contractual and ECGD functions. In addition to the normal responsibilities associated with an appointment at this level the successful applicant will also be expected to contribute significantly to the commercial management of the business.

Candidates aged 35-45 should be qualified accountants with a successful track record gained in an engineering environment who can demonstrate the managerial experience, technical expertise, personal presence and communicative abilities required to make an *immediate impact at a senior* level. Full relocation facilities are available.

Interested applicants should write to **Frederick C.R. Howie MA**, *quoting ref:* **504** at **Michael Page Partnership, Clarendon House, 81 Mosley Street, Manchester M2 3LQ. (Tel: 061-228 0396).**

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FINANCE DIRECTOR

£20,000 + Bonus + Car — **West Midlands**

This is an exceptional opportunity for a qualified accountant with strong commercial instincts to join the operational team of this dynamic, growth-orientated business.
This subsidiary company is in newspaper publishing and advertising supported business. It is fast expanding and has impressive prospects.
The Finance Director has responsibility for all financial and administrative control, with emphasis on pricing, planning and contract negotiation. Close links will be maintained with the Group Finance Director.
Candidates, aged 27+, should be able to demonstrate the management and personal qualities needed to make a substantial contribution to profit performance.
Benefits include executive car, pension and profit related bonus.
Please write in confidence to:

Gareth Clark, Group Finance Director
Middlesex County Press Limited
Rockingham Road, Uxbridge UB8 2YW

IPS GROUP

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Accountancy Recruitment Manager — Package to £40K per annum
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We have immediate plans for rapid expansion in our Accountancy Recruitment Division to service growth areas of business in the City of London. We are, therefore, seeking *experienced* Recruitment Consultants with a good 'track record', who will be looking for high rewards and first class career prospects. He/she should have drive, initiative, flair, integrity, a professional attitude and the determination to succeed. Income, package including an exceptional direct profit share scheme is likely to be between £20,000 to £40,000 or possibly higher. Age consideration probably 23/35 years. We would also be pleased to talk with Directors or teams who are unhappy with their present situation. If you have the qualities and ambition — we are the Company for you.
For a strictly confidential discussion contact: Trevor James, F.E.C.I., Group Chairman, or Jayne Dearle, Personal Assistant to the Chairman.

IPS GROUP OF COMPANIES
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Tel: 01-481 8111

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c£17,500 – £25,000 + car

Are you a recently qualified accountant or finalist looking for a new career? With a wide variety of excellent positions available in small to medium-sized companies, and diversity of other blue chip companies we are ideally placed to fill your job requirements.
Our service is personal, professional and completely confidential. We may have just what you've been looking for so why not ring us today for an appointment or simply send us your C.V. Ref: C.A./346

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INSOLVENCY MANAGER

to £30,000

Senior Manager responsible for London Office Dept. of top 15 Insolvency C/A's. Technical Administration, Staff and P.R. duties.

MIKE MORELL - 255-1555
MERIDIAN ACCOUNTANCY REC. CONS.
Museum House, 25 Museum St. WC1A 1JT.

Vice President – Finance

London £35,000 + Benefits

Our client, a major merchant bank with extensive international operations is committed to playing a leading role in the development of the world's capital markets.

A Vice President – Finance is needed to assume responsibility for financial control and risk analysis for the UK and European security markets.

Candidates must have a strong securities background, ideally with a merchant bank, financial institution or perhaps from the consultancy arm of one of the "big eight" accounting firms.

Candidates will be aged 28-35, and must be highly motivated self-starters with excellent inter-personal skills.

Interested applicants should write, enclosing a comprehensive curriculum vitae and daytime telephone number, quoting ref. 475 to **Jon Anderson ACMA, Executive Division at 39-41 Parker Street, London WC2B 5LH.**

Michael Page Partnership
International Recruitment Consultants
London Bristol Windsor St Albans Leatherhead Birmingham Nottingham Manchester Leeds Glasgow & Worldwide
A member of Addison Consultancy Group PLC

Group Finance Director

Co. Durham c£40,000 Pkg + Car + Equity

Our client is a highly successful, rapidly expanding independent group of companies, engaged in the sale and distribution of high quality consumer goods from prime locations throughout the North of England and Scotland. Its recent record of growth, both organically and through acquisition, has been exceptional and has resulted in a proposed Stock Exchange Listing.

They seek a Group Finance Director who, reporting to the Managing Director, will be responsible for the total finance function with particular emphasis on preparing for and successfully achieving the flotation. In addition, the successful applicant will be expected to input significantly to strategic business planning and the overall commercial management of the business.

Candidates, aged 30-45, will be *qualified* accountants who can demonstrate a track record of achievement to date in a fast moving business environment while possessing well developed inter-personal skills and a high degree of commercial awareness. Comprehensive relocation facilities are available where appropriate.

Interested applicants should write to **Stephen J. Broadhurst**, or **Angela McDermottroe**, quoting ref: L8404, at **Michael Page Partnership, Leigh House, 28-32 St. Paul's Street, Leeds LS1 2PX. (Tel: 0532 450212).**

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Hoggett Bowers

Executive Search and Selection Consultants

BIRMINGHAM, BRISTOL, CAMBRIDGE, CARDIFF, GLASGOW, LEEDS, LONDON, MANCHESTER, NEWCASTLE, NOTTINGHAM, SHEFFIELD and WINDSOR

A MEMBER OF BLUE ARROW PLC

Group Chief Accountant

Fast Moving Consumer Goods
West London, To £30,000, Car, Bonus

An outstanding opportunity for a qualified accountant in his/her late 20's - early 30's. The UK subsidiary of a $5bn American multi-national, the client manufactures and distributes market leading toiletries and pharmaceutical products. Reporting to the Finance Director, responsibilities include statutory and management reporting, treasury, credit control and customer services. You will be used to operating to the highest professional standards in either a US multi-national or within a major professional firm. You will have strong communication and presentation skills and have clear ability to develop to the next level with the organisation.

S.P. Spindler, **Hoggett Bowers plc**, *George V Place, 4 Thames Avenue,* **WINDSOR**, *SL4 1QP*, **0753-850851.** *Ref: W11033/FT.*

Finance Director

Service Industry
Northamptonshire, c £30,000, Car

This company is a highly successful member of an international group; a market leader in its field, its record is one of rapid growth, by acquisition and diversification. The Finance Director will be a key member of the committed, enthusiastic senior management team and will be very much involved in the development of the business, as well as ensuring the financial function runs smoothly. You should be a qualified accountant, preferably ACMA and will probably be in your early 30's. You must have had substantial exposure to business decisions at a senior level, as well as having competence in accounting and a very sound understanding of computerised business systems. Above all, we are looking for a committed professional who wishes to grow fast and perhaps sees general management as a future option. Employment terms include a quality car, profit related bonus and relocation assistance where necessary.

C.W. Theaker, **Hoggett Bowers plc**, *13 Frederick Road, Edgbaston,* **BIRMINGHAM**, *B15 1JD*, **021-455 7575.** *Ref: B12038/FT.*

Accounting & Administration Controller

European Head Office Role
Reading, To £20,000, Car, Benefits

A pragmatic approach to their customer's large scale computer data management problems has enabled this rapidly growing US manufacturer and distributor to achieve a European turnover of in excess of $17m in 1986. Reporting to the European Director of Finance and Administration your responsibilities will include the preparation of monthly management accounts, cash flow and profit projections together with a broad range of administrative duties for both its UK operations and European subsidiaries. In this key role you will be involved in the management team and have a significant degree of autonomy. A qualified accountant aged 24-29, you must be familiar with US accounting and reporting methods. You should also have the ability, flair and commitment to develop and improve existing accounting and administrative procedures in order to handle the continuing 40% annual growth in business. You should possess experience of computerised accounting systems and Lotus modelling. If you are determined, able to work to tight deadlines and ambitious, the company offers excellent career prospects, an attractive range of benefits including a non-contributory pension, plus relocation assistance if appropriate.

R.J. Simpson, **Hoggett Bowers plc**, *George V Place, 4 Thames Avenue,* **WINDSOR**, *SL4 1QP*, **0753-850851.** *Ref: W17013/FT.*

Financial Manager

Food Processing
M4 Corridor, c £20,000, Benefits

This is a challenging opportunity to join the newly stengthened management team at one of the key locations for this major food manufacturer. Restructuring of the finance function to reflect changes in the operation of the business has resulted in a new position. Reporting to the General Manager, you will lead a sizeable team responsible for all site accounting and administration. A qualified accountant in your 30's, you must have experience of senior level management accounting in a substantial manufacturing company. A thorough knowledge of computerised production and accounting systems is essential, ideally gained with a food processor or fast moving consumer goods manufacturer. However, the most important factors for success are personal qualities - strong commitment to contributing to improvements in profitability and return on capital; ability to relate to and influence other line managers; determination to implement change. Career prospects are excellent and generous relocation assistance is available if appropriate.

S.P. Spindler, **Hoggett Bowers plc**, *George V Place, 4 Thames Avenue,* **WINDSOR**, *SL4 1QP*, **0753-850851.** *Ref: W11029/FT.*

These positions are open to male or female candidates. Please telephone for a Personal History Form to the relevant office, quoting the appropriate reference.

Career Opportunities for Financial Professionals

Thames Valley Up to £20K

Our client is a major British plc with a group turnover of over £1000 million. It is a market-leader in material manufacture with operations worldwide and a significant presence in the USA.

The company is now entering an exciting phase in its development, and have two excellent career opportunities in their prestigious head office·

Manager – Corporate Accounts

With full and direct responsibility for the Corporate Accounts Department of 5, this is an exceptional opportunity to gain managerial experience in a HQ environment, in a highly visible role requiring a broad range of financial skills.

Taxation Accountant

Joining a small specialist team, responsibilities will include compliance work, VAT and liaison with the Inland Revenue. However, you will be working in an environment where the breadth of the role will expand with your experience.

For both these positions, you should be recently qualified, preferably from the profession, and keen to take on early responsibility. Whilst relevant tax experience would be an advantage for the Taxation position, it is not essential.

In addition to the salary quoted, and large company benefits, our client offers a challenging role with excellent career opportunities.

Please write or telephone, in confidence, with full career details to Mike Konig, quoting ref. B.39004 (Manager Corporate Accounts) or B 39005 (Taxation Accountant). Telephone: Windsor (0753) 842044.

MSL International (UK) Ltd,
Pilgrim House, 2/6 William Street, Windsor, Berks SL4 0BA.

Offices in Europe, the Americas, Australasia and Asia Pacific.

MSL International

Financial Controller

London, SW11
c.£25,000 package

Our client, Swallow Holdings, is a successful and *enterprising manufacturer and distributor* of art and framing materials. They are looking for a qualified accountant to manage a small computerised accounts function and provide financial advice to help achieve corporate objectives.

The post calls for sound technical ability plus "hands on" experience in an integrated manufacturing and marketing group with a turnover c.£5m. The company style combines professionalism *with initiative, informality and commitment.*

A salary and car package around £25,000 will be negotiated, there is a contributory pension and BUPA and a possibility of future equity participation.

Applicants up to the mid-thirties and able to commute to South London should write, quoting reference 1526 and including a CV giving current earnings and a daytime telephone number, to:-

BinderHamlyn
MANAGEMENT CONSULTANTS

Trevor Austin, Executive Selection Division
Binder Hamlyn Management Consultants
8 St Bride Street, London EC4A 4DA

Internal Auditor

Basingstoke
Excellent Salary, Fringe Benefits – including Car

Due to internal reorganisation, Provident Life Association Limited, the U.K. Life subsidiary of Winterthur Swiss Insurance Company, one of Europe's leading insurance groups, wishes to appoint a recently-qualified chartered accountant to the post of Internal Auditor. This position offers excellent experience and training within the financial services area.

The successful applicant will be responsible for the Internal Audit function at the Company's new headquarters at Basingstoke. The work includes: reviewing existing computer systems; reviewing the development and implementation of new systems; using computer assisted audit techniques; reporting findings to management, and working closely with the Company's external auditors. In addition a small amount of overseas work for the group audit office is likely.

Candidates should be aged between 25 and 30, have computer audit training and approximately two years' post-qualification computer audit experience in a major professional firm.

In addition to an excellent starting salary, the valuable remuneration package will include such benefits as a cash bonus, company car, subsidised mortgage and a non-contributory pension scheme. Assistance with relocation will be provided where appropriate.

Applications with full details should be sent to: Geoffrey Boutle, Personnel Manager, Provident Life Association, Provident Way, Basingstoke, Hampshire RG21 2SZ. Tel: (0256) 470707.

provident life
association

YOUNG CHARTERED ACCOUNTANTS £40,000to £50,000

A partnership of ambitious Chartered Accountants with two established offices in Staffordshire, are looking for additional partners to join them.

They require additional partners to join the firm who share their belief that hard work and service to clients will bring expansion and financial reward to the firm.

Successful applicants will have a probationary period of employment leading to partnership in one year.

No payment for goodwill is required and the working capital is provided by the partners.

Applications in writing to: Box A0747, Financial Times, 10 Cannon Street, EC4P 4BY

FINANCE DIRECTOR

(Administration and Systems)

A board appointment demanding senior experience.

A leading educational book publisher and subsidiary of the International Thomson Organisation, Thomas Nelson and Sons Ltd are seeking a qualified professional (with financial systems experience) to fulfil a key position within the management team and contribute to the Company's successful business strategy.

While offering control of the finance department, the major element of this role is focussed less on technical requirements than on a sure understanding and interpretation of figures, administrative ability and practised man-management *skills. With the onset of new technology, there is also considerable scope for* developing systems which optimise the potential of all available resources.

Reflecting the seniority of this appointment within an established and expanding publishing house, an attractive salary, incentive bonus scheme, company car, pension and other benefits make this an excellent opportunity to join a company with a strong record and sound potential. Please send CV and letter of application detailing how you can fulfil the above requirements, to Michael Thompson, Managing Director, Thomas Nelson and Sons Ltd, Nelson House, Mayfield Road, Walton-on-Thames, Surrey KT12 5PL.

FINANCIAL CONTROLLER

c. £25,000 + CAR

LINX

Linx Printing Technologies is a new name in the package printing industy, involved in the development of advanced ink jet printers.

The Company is seeking to recruit an experienced accountant (ACA, ACMA) who will have gained significant post-qualification experience in an industrial or commercial environment. The successful candidate will be responsible directly to the Managing Director for the design and development of all the financial control systems, in what will be a rapidly expanding Company.

In addition to his responsibilities for the total finance function the Financial Controller will be expected to contribute, as an equal member *of a young and aggressive executive management team, to the overall* startegic development of the Company. A board appointment could be anticipated as a result of successful performance in this position. The employment package offered will include the option of equity participation.

Applicants should write with a detailed CV to:

E. A. Richardson
Linx Printing Technologies Limited
33 Stephenson Road, St Ives, Huntingdon
Cambs PE17 4WJ

International Appointments

THE MINISTRY OF FINANCE & ECONOMY

(Financial Affairs)

Invites applications for the position of a Financial Accountant in the Department of Loans & Investment. The Candidate should possess recognised qualifications in banking and finance/accounts. The incumbent should have at least 7-10 years' experience in the areas of foreign exchange and money markets, modern capital market instruments and techniques and loans/liability management. He should be conversant with working on PCs.

The right candidate will be offered attractive terms.

Please apply within 10 days to:

The Director General,
Revenue & Investment,
Ministry of Finance & Economy,
P.O. Box 506, Muscat,
Sultanate of Oman,
with detailed curriculum vitae and a recent photograph.

Finance Director (Designate)

c. £28,000 + car — Middlesex

This is an outstanding opportunity to join a young and highly successful group of companies engaged in worldwide trading, marketing and overseas project management. As well as representing major international companies, our client has its own impressive product base, with a strong presence and sales record in key markets overseas. With current turnover in the region of £40m, the group is set for further expansion both organically and by acquisition.

Reporting to the Group Finance Director, you will have complete responsibility for the financial operations of the major subsidiary of this international multicurrency business including: reporting; planning and acquisition appraisal; cash management and money market operations; taxation; systems enhancement and tight financial and management controls. There will be scope to become involved in other areas of group activity.

Candidates should be qualified chartered accountants, probably aged in their mid 30s, with experience of a senior financial management role in a multicurrency service or export business. Personal strengths should include drive, a profit motive attitude to business and the personality to succeed in a sales and marketing led organisation.

Please reply in confidence, giving concise career, personal and salary details to:
Michael Fahey, Ref. ER970, Arthur Young Corporate Resourcing, Citadel House, 5-11 Fetter Lane, London EC4A 1DH

Arthur Young Corporate Resourcing
A MEMBER OF ARTHUR YOUNG INTERNATIONAL

An exciting commercial opportunity for a professional Accountant/MBA in financial services

Northern England

£25,000 + bonus, car and benefits

Our clients are a Northern based financial services company, a subsidiary of a major international financial services group, providing a range of specialist insurance-based services to corporate clients.

The company has a vacancy for an exceptional, enterprising young professional with a strong desire to develop a career in commerce. The position calls for a chartered accountant or MBA, possibly with a joint-stock banking or finance house background, a flair for interpreting accounts and judging their financial strength, and exposure to computerised systems.

Candidates, who will probably be aged 27 to 30, must show initiative, sound commercial judgement, and the ability to accept a calculated risk. They must like meeting people and enjoy the challenge of winning acceptance of their ideas, though this is not primarily a selling job. Some travel in the UK and eventually overseas will be involved.

This is an exceptional opportunity for an ambitious professional, with appropriate awards including an excellent salary plus performance related bonus, executive car, generous mortgage subsidy, non-contributory pension scheme, BUPA and permanent health insurance. Relocation assistance will be provided where appropriate.

Please apply sending a full cv including details of current remuneration and a daytime telephone number, quoting reference 1528, to:–
Roger Bull, Executive Selection Division, Binder Hamlyn Management Consultants, 8 St Bride Street, London EC4A 4DA.

BinderHamlyn MANAGEMENT CONSULTANTS

Cybertek
Finance Director Designate
USM Potential

Hoddesdon, Herts — c£25-30,000+car

Cybertek is a rapidly expanding company specialising in the development of fourth generation software products. Since its foundation in 1977 it has quickly established itself as the world leader in its chosen market place and has achieved dramatic revenue and profit growth culminating in the recent launch of a highly successful US subsidiary. Business plans for the next three years include an aggressive fourfold increase in sales, the establishment of new European subsidiaries and a proposed public flotation.

The Company now needs to recruit an ambitious Finance Director Designate to take it through this critical stage of its development.

Responsibilities for this demanding role will include financial planning and evaluation of strategic and commercial decisions, setting up and maintenance of sound financial reporting and controls, development of computerised systems, treasury management and the recruitment and training of finance and administrative staff throughout this worldwide Group.

The successful candidate will be based at the company's headquarters in Hoddesdon and will undertake a limited amount of USA and European travel.

Candidates should be qualified accountants aged 27-35 with an ability to communicate effectively at Board level and a willingness to 'roll up your sleeves' when necessary. Commercial flair and a positive attitude are seen as being more important than relevant experience. Full appointment to the Board is expected within a six month period and equity participation may be available upon flotation of the Company.

Interested applicants should write enclosing a CV to
Peter Ward, ACMA, quoting ref HCN 1009, at Centurion House, 136-142 London Road, St. Albans AL1 1SA.

Michael Page Partnership
International Recruitment Consultants
London Bristol Windsor St Albans Leatherhead Birmingham Nottingham Manchester Leeds Glasgow & Worldwide
A member of Addison Consultancy Group PLC

Financial Director

'a new appointment, significant non-financial involvement plus the USM and acquisitions'

to £32,000 + car — Service Industry

All in all a more than attractive and challenging opportunity with a successful organisation which has an excellent track record and which is seeking a 30% increase in turnover this year.

Currently operating from four locations, it provides a professional service to a diverse and expanding client base, encompassing both private and public sectors and including many of household name status.

Already one of the foremost exponents in its field, substantial growth is projected – both organically and by mergers/ *acquisitions – with the USM being fundamental to these plans.*

In this new role – which is seen as crucial to future growth – priorities will include raising the presence of the finance function, developing the executive team's use of management information, preparing for the USM, and acquisition investigations.

Additionally, your responsibilities – which you must have the desire to expand – will include administration, company secretarial, personnel, data processing and project control.

A qualified accountant aged 33–45, you will have a service industry background with good experience of computerised systems and company secretarial duties. Ideally you will also have been involved in acquisitions and the USM and had responsibilities in non-financial areas.

This appointment has a Southern Home Counties location.

Interested? Then please forward a comprehensive C.V. to **Dennis Fielding, quoting Ref MD1436 at Macmillan Davies Consultants, Salisbury House, Bluecoats, Hertford, SG14 1PU. Telephone: (0992) 552552.**

Macmillan Davies
M A N A G E M E N T   S E L E C T I O N

FINANCIAL DIRECTOR DESIGNATE

WEST LONDON

c £30,000 + Bonus to 40%, Share Options, Car & Relocation

Outstanding opportunity to achieve board level status within the UK subsidiary of a Fortune 500 organisation. This company, whose name is synonymous with high quality service, has experienced rapid growth both organically and by acquisition. To sustain this expansion, they are now poised to move into Europe in 1988.

This role carries with it full responsibility for the financial management of the UK and European operations and will require a significant contribution towards business development and the *future direction of the company.* The incumbent will be expected to undertake regular visits to Europe and the USA.

The ideal candidate will be a graduate accountant, aged to 40, who is able to demonstrate an outstanding track record of achievement to date. Strong commercial flair, combined with an excellent personality and the ability to work under the pressure resulting from accelerated growth are prerequisite.

To discuss this position in further detail, contact ***Harsa Savjani*** *on 01-629 4463 (or 01-720 1527 during evenings and weekends), alternatively write to her at the address below.*

HARRISON WILLIS
FINANCIAL RECRUITMENT CONSULTANTS
Cardinal House, 39-40 Albemarle St., London W1X 3FD. Tel: 01-629 4463.

The quality of our products is matched only by the excellence of the career we can offer.

Chief Financial Accountant — c£25K + car - Finchley

Although you're probably already familiar with the name Ind Coope you might not realise that we are the company behind a whole range of popular brands of beer.

Brands like Castlemaine XXXX, Skol, Long Life and John Bull Bitter, to name but a few.

But that's not all. Part of the Allied Lyons Group, we *also own 2,300 pubs throughout the country along* with a catering company and a brewery, which together generate an annual turnover in excess of £350 million.

A significant factor in our tremendous success has been our highly developed and computerised Finance and Administration Department which has recently relocated to Finchley.

As Chief Financial Accountant you will effectively manage the 120 strong finance department, reporting directly to the Finance Director. A young 'high-flier', you will be responsible for helping to develop our overall corporate financial strategy and supervising the Retail, Development, Financial and Sales Accounting *Departments. You will also need to produce financial* and management accounts, monitor and control our cashflow, and help develop a retail accounting system using EPOS.

Additional responsibilities *include representing the* department at Allied Breweries and devising and implementing staff and management training programmes.

Ambitious and in your late 20's to late 30's, you must hold a professional accounting qualification and have at least 5 years' post-qualification experience, ideally gained within a major multi-site leisure or retail operation. Apart from being familiar with mainframe and micro-based accounting systems, you must also possess excellent man-management and inter-personal skills which can blend with our flexible, team-based style of management.

In return, we can offer an attractive salary in the region of £25K plus car, and a generous range of benefits together with the opportunity to progress within the highly successful Allied Lyons Group.

If you believe that you are the calibre of individual we need and would like to apply, please write in confidence to John Smith, Personnel Director, Ind Coope Limited, The Brewery, High Street, Romford, Essex.

BY APPOINTMENT TO HER MAJESTY THE QUEEN — BREWERS OF ALE AND LAGER IND COOPE LIMITED LONDON

Allied-Lyons

IND COOPE LIMITED

Finance Director
(Subsidiary of Multinational Group)

East Anglia
c£28,000+car

*A prestigious and diversified multi-*national group has recently acquired a substantial commodity processing and trading company based in East Anglia.

A Finance Director is now needed to spearhead the group's plans for the company's successful development. Initially, the appointee will spend an induction period at the group's London Head Office getting to know the main Directors, business activities and group requirements. Any training needs will also be dealt with at this stage.

Reporting to the local Managing Director and the holding company board, the overall brief will be to *evaluate and strengthen the company's* financial management and analysis and internal control system. A contribution to strategic decision making and development will also be required. The relationship with the Head Office will be characterised by the requirement for communication rather than direct control.

Ideally you should be a qualified accountant, preferably Chartered, and have already reached an influential position in a fast moving and well controlled company. Experience of the business sector is not essential and we believe that, currently, you could be in a senior position within the profession, industry or commerce.

The position requires a commercially astute, forceful and diplomatic personality who possesses strong diagnostic and organisation abilities.

Salary is negotiable around the indicator shown, and relocation assistance will be provided.

Please write enclosing a full CV and salary details, quoting reference number MCS/3031 to:
Tracey Phillips
Executive Selection Division
Price Waterhouse
Management Consultants
No. 1 London Bridge
London SE1 9QL

Price Waterhouse

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We have openings for ambitious recently qualified or part-qualified ACA or ACCA candidates in professional offices. Well presented individuals to project a first class image to clients.
Plenty of initiative, motivation and an in depth knowledge of accountancy. Excellent prospects and benefits.
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Tessa Taylor Ext 3351
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Patrick Williams Ext 3694
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Elizabeth Rowan Ext 3456

Young Group Accountant

Berkshire **Up to £27K + car**

Major international PLC, a leader in its chosen fields, seeks an exceptional accountant to support the Group Accounting Manager in a demanding central management role, consolidating performance reports/ forecasts and taking responsibility for independent assignments, allocated by the Board. Career prospects in this diversified Group are excellent both within and outside the Head Office.

Candidates in the age range 25 to 29 must be qualified and are likely to have "big eight" experience with knowledge of international consolidation, a high level of technical awareness and an interest in computer systems. Communications skills and initiative are also pre-requisites together with the potential to outgrow the job within two years.

You may wish to telephone George Wakely on 01-935 5996 to discuss your suitability for the post or write to him at John Courtis & Partners, Selection Consultants, *104 Marylebone Lane, London W1M 5FU,* showing clearly how you meet our client's requirements, quoting 3040/FT.

JC&P Management Selection and Search
London, Milton Keynes, Wilmslow

FINANCIAL CONTROLLER

Corporate Member of The Stock Exchange

circa £35,000, plus benefits

A corporate member of The Stock Exchange, with significant overseas connections and part of an international group, requires a financial controller with a background in the securities industry.

Based in the City, the successful candidate will report directly to the chief executive. He/she will be expected to play a key role in financial planning, reporting and control, and in contributing to the company's administrative efficiency, using modern information technology.

The position requires a qualified accountant in his/her mid to late thirties, with relevant managerial experience, including good communication and staff management skills. Liaison with outlying offices, including visits, forms part of the role.

An attractive remuneration package will be negotiated; future prospects extend to other companies in the group.

Applications, giving full details of previous experience and *current salary, quoting reference C/2319, should be sent in* complete confidence to PE Bailey at:

ANNAN IMPEY MORRISH LIMITED
Management Consultants
266 Bishopsgate, London EC2M 4QX

AIM Management Consultants

European Tax Manager

Attractive salary + car Central London

The Group is one of the largest motion picture producers and distributors in the world. International growth has been rapid and the European operations have become a *significant revenue earner. As part of the entepreneurial* development plan, the European businesses are being consolidated for control by a new European *Headquarters to be based in London.*

Reporting jointly to the European Finance Director and the U.S. Tax Director, the European Tax Manager *will make a major contribution by* directing and advising management in both the U.S. and Europe on how business objectives can be realised in the most tax *efficient manner.* The incumbent will create and develop the European tax function, ensure that the group complies with tax regulations, develop and maintain a tax planning service, and ensure *compliance with all* local tax filing requirements.

In their 30s, candidates should be chartered accountants with an extensive detailed *knowledge of* European tax legislation. With a minimum of two years' experience of the taxation of U.S. multinationals, *candidates should be able to show how they have* helped company growth through providing effective tax advice. Your approach must be commercial and suited *to meeting the demands of a dynamic company.*

Please reply in confidence, giving concise career, personal and salary details to:
Michael Fahey, Ref. ER 972,
Arthur Young Corporate Resourcing,
Citadel House, 5-11 Fetter Lane, London EC4A 1DH.

Arthur Young Corporate Resourcing
A MEMBER OF ARTHUR YOUNG INTERNATIONAL

PROGRESS WITH SAAB

BUSINESS MANAGEMENT MANAGER

Marlow

Saab Great Britain Ltd., is a wholly owned subsidiary of the world *famous Saab Scania Group, one of the industrial giants of* Scandinavia. We import and distribute specialist high quality passenger cars through our dealer network from our new, modern office complex in Marlow and enjoy high demand for our products in the specialist car sector. Building on this success in Britain we need to strengthen our Dealer Development Department through the appointment of an additional Business *Management Manager.*

Working within a small but highly professional team, you will assist dealers in the management of their commercial affairs by:

- improving efficiency through the further development of management accounts and financial information systems
- an involvement in the highly acclaimed Saab Institute of Management
- *day to day training*

This important new appointment calls for outstanding communication skills at all levels, absolute confidentiality plus a sensitive management style which inspires confidence and trust. You must therefore be aged late 20's onwards possessing both a recognised accountancy qualification and good retail *experience within a vehicle franchise. You must also have the* intellectual ability to quickly assimilate the detail of the business in order to participate in forward strategic planning.

This is an excellent career development opportunity and the remuneration package is designed to attract high calibre candidates who should write in *complete confidence to our advising* consultant Brian Smith Ref: 826 with full career details —

The Personnel Department,
Saab Great Britain Ltd.,
Globe Park, Marlow, Bucks SL7 1LY.

SAAB

The Private Capital Group Limited

Unique opportunities within an established and vigorous Financial Services Group.

The Private Capital Group (PCG) is a subsidiary of the Scandinavian Bank Group, the twelfth largest International Banking Group based in London. PCG was formed just over a year ago to bring together personal financial and business services activities within a separate corporate structure. Rapid expansion and development has taken place, by acquisition and growth, during the last twelve months, *including the acquisition of one of the largest Private* Client Stockbroking firms, Brewin Dolphin and Co. Ltd, which forms the nucleus of the Group's UK Investment Service. We now wish to make two senior appointments, both of which will contribute significantly to the continued growth and expansion of the Group.

LEGAL ADVISER

We are seeking an energetic, creative and entrepreneaurial Lawyer with a financial services background and a record of high achievement to take full responsibility for all legal, company secretarial and compliance matters within the Group. This will encompass Financial Services Act requirements, reporting and registrations; company formations, mergers acquisitions; in-house legal advice and litigation.

FINANCIAL CONTROLLER

We are also seeking a qualified Chartered Accountant to act as a financial Controller for the Group's Stockbroking concern Brewin Dolphin and Co. Ltd. The role will require the creation and maintenance of financial reporting and control procedures and standards to meet Financial Services Act requirements and those of the wider group. Reporting to the Managing Director, he/she will ideally have a background in some aspects of Stockbroking; technical excellence in accountancy and taxation, and a pragmatic sleeves-rolled up approach are essential.

Both posts demand personal and professional qualities of the highest order. Age indicator in both cases is late 20's to mid-30's and *both posts carry executive status and provide highly competitive salaries and fringe benefits.*

Applicants should forward a full CV, detailing age, current salary and a daytime telephone number to:–

The Personnel Manager
The Private Capital Group Limited
8 Hill Street London W1X 7FU

International Appointments

A Challenging International Role

AUSTRADE
Australian Trade Commission
THE NEW NAME IN EXPORT FACILITATION

The Australian Trade Commission is dedicated to the identification and development of international business opportunities for Australian industry by providing timely, relevant and high quality services covering a broad range of export facilitation activities.

Finance Insurance and Projects Group
SYDNEY — AUSTRALIA

The Finance Insurance and Projects Group of the Australian Trade *Commission provides a specialised range of lending, credit insurance* and other services to exporters and financial institutions and plays a vital and expanding role in *supporting Australia's international* trade. It enjoys excellent working relationships with both the exporting and financial communities.

The Group is now seeking suitably qualified and experienced senior managers for the following positions located in Sydney.

The positions also carry market related benefit packages to be discussed at interview. *There are options for permanent or contract* appointment. Appointments will be made at levels which will recognise the qualifications and experience of applicants.

MANAGER
Capital Goods

MANAGER
Funding

2 POSITIONS
Base Salary $A49,389–$A54,154

The Finance Division of the Group provides various finance, guarantee, insurance and bonding facilities to exporters, financiers and project sponsors. The work is varied, demanding and innovative and calls for a commitment to the success of Australia's export efforts.

THE MANAGER – CAPITAL GOODS is responsible for oversight and control of a small specialised team engaged in underwriting direct lending and supplier credit transactions and in financial analysis. The *Manager will be required to negotiate with senior management of* exporting firms engaged in capital goods projects and provide insurance and financing proposals in support of those projects.

THE MANAGER – FUNDING is required to control the funding operations of the Group's direct lending facility. Responsibilities include negotiating with participants in both the domestic and overseas capital markets to establish borrowing facilities, management of a multi currency loan portfolio and administration of export credits.

Applicants for these positions should have a good knowledge of the various techiniques of financing overseas trade. For the position of Manager, Funding, broad *experience* is sought in treasury management, *preferably in the utilisation of various currencies.*

MANAGER
Export Credit Insurance

Base Salary $A49,389–$A54,154

THE MANAGER – EXPORT CREDIT INSURANCE, is responsible for managing a large team engaged in underwriting approximately A$3 billion of Australia's exports each year. Head Office is in Sydney with branches in Melbourne, Brisbane, Adelaide and Perth.

Essential experience is a comprehensive knowledge of exporting and a thorough understanding of the financing of exports. Strong analytical capacity and firm judgement are essential personal qualities. The supervision and motivation of a large professional staff is a very important aspect of the Manager's duties. Tertiary qualifications and corporate management experience highly desirable.

For further information please contact Dr D.F. Fisher (Sydney) 61 02 231 2655. Applications should be forwarded by fax. (612) 251 3851. Attention Dr D.F. Fisher, General Manager.

AB1-3226

RECRUITMENT CONSULTANT

Age 23-27 £ Excellent

An outstanding opportunity has arisen within our Executive Division as a result of internal promotion. We are interested in hearing from ambitious individuals with at least twelve months recruitment consultancy experience in the accounting or finance sectors.

As a demanding organisation we can offer rapid progression for those willing to work under pressure as part of a team. As opposed to a commission structure, we operate a quarterly bonus system which rewards both personal and team performance. In addition to a high base salary which is regularly reviewed, other benefits include a company car scheme and private health care.

Please phone James Hyde for further information or to arrange an exploratory meeting on *01-925 0453* (evenings/weekends 01-997 6029). Alternatively, write enclosing brief details to the address below.

All enquiries will, of course, be treated in the strictest confidence.

ROBERT • WALTERS • ASSOCIATES
EXECUTIVE SELECTION
10 Charles II Street London SW1Y 4AA Telephone: 01-925 0453

Financial Controller

West Midlands c.£25,000 + car

Our client is a leading nationwide distributor in the wholesale business whose current growth and ambitious plans for the future have resulted in the creation of this new and exciting opportunity.

Reporting to the Financial Director, your responsibilities will include statutory, management and branch accounts. Existing integrated financial systems will be developed and expanded under your expert guidance. You will be expected to establish a sympathetic rapport with all members of a large accounting team and field management.

A qualified accountant, you will need to demonstrate experience and achievement in managing the financial aspects of a multi-site retail or wholesale business. An innovative approach to systems accounting is essential. Your creativity and strong communication skills will enable you to provide the leadership and support the company seeks during this important phase of its expansion.

Career prospects are excellent and an attractive benefits package will include relocation *assistance to this attractive* part of the *West Midlands* where appropriate.

Marc Woolmer RECRUITMENT

Please send your full c.v. quoting reference 3030 to: Marc Woolmer Recruitment, 45 Castle Street, Cirencester, GLOS GL7 1QD, or telephone Cirencester (0285) 69016/7 for a confidential discussion.

Greenbelt Advantages... ...Big City Benefits

Surrey **c£22,500 + Car + Profit Share**

Part of a diversified, multinational group (T/O £Billions), this "core business" subsidiary has an impressive growth record. Financial systems must be sustained and developed to reflect adequately the company's continued development.

A Chartered Accountant, aged up to 35 years, is sought to join the management team. He or she will have the flair and creativity to review existing financial systems and provide sound practical advice on their improvement. Thus, knowledge of computer systems, accounting standards and naturally enough statutory obligations is called for.

The position demands an outstanding individual who can combine technical competence with imagination, has well developed commercial instincts and above all a determination to achieve agreed targets. Success in this position will ensure career promotion within the foreseeable future.

Benefits, including profit share, are substantial and relocation expenses are available.

Write with full cv and daytime telephone number to Patrick Donnelly quoting ref: FT/016.

PD Consultants
MANAGEMENT · SELECTION
314/316 Vauxhall Bridge Road, London SW1V 1AA. Tel: 01-828 2275.

ACA/ACMA/ACCA – Corporate Strategy – Retail

From £20,000 + Car + Performance Bonus

This leading British retail group seeks a young NEWLY/ RECENTLY QUALIFIED Accountant to join its Corporate Finance team based in Central London.

Reporting to the Head of Finance, the team monitors profitability of existing outlets, whilst researching and developing new business opportunities.

Initial duties will include analysis of product profitability and competitor activity. This is an excellent opportunity to gain broad business exposure while *working in a key area which directly* affects the company's strategic plans. Candidates, aged 24-28, should be seeking to move into a Divisional Controllership or senior management role in Corporate Finance within 2 years.

The benefits package offered includes executive car and *performance related* bonus of up to 25% of salary.

Please contact JANE EASTON ref: 3341 for further information.

Alderwick and Peachell PARTNERS LTD

Alderwick Peachell and Partners Ltd.,
Accountancy & Financial Recruitment,
125 High Holborn, London WC1V 6QA. Tel: 01-404 3155

UK Finance Director

to £40,000+car

Central London

Our client is one of the largest motion picture production and distribution companies in the world. With its head offices in the United States, the company is led with entrepreneurial flair by its senior management team and has experienced rapid expansion. Outside the US the *group has a strong network of European subsidiaries*, with the UK being the most significant with revenue in excess of $100m.

Reporting to the UK *Managing Director*, the *appointee will be a key senior member of the* management team and will be responsible for the control and development of the UK operations' financial activities. Key functions will include the compilation and analysis of results, statutory and management reporting, budgeting and forecasting, cash management and planning. Leading a team of staff, the UK Finance Director will have the scope to introduce new systems and procedures and will participate in the formulation of new policies and plans.

Candidates will be chartered accountants, probably aged in their 30s, with strong commercial experience ideally with a U.S. multinational, including direct exposure to both US & UK GAAP. As well as good technical and management skills, you will need the drive to create *change and the commitment to direct it to group goals.*

Please reply in confidence, giving concise career, personal and salary details to:
Judith Richardson, Ref. ER 973,
Arthur Young Corporate Resourcing,
Citadel House, 5-11 Fetter Lane, London EC4A 1DH.

Arthur Young Corporate Resourcing

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

UNIVERSITY OF BATH
SCHOOL OF MANAGEMENT

LECTURE IN ACCOUNTING

Applications are invited from those who can offer university courses in financial or management accounting to an advanced level and participate in research in organisations in collaboration with other members of the School. The post will be a permanent appointment, subject to *probation if appropriate.*

Salary in the range
£9,260 - £14,500
or £15,105 -£19,310
depending on age, qualifications and experience.

Further particulars and application forms are available from the Personnel Officer, University of Bath, Bath BA2 7AY, quoting reference 87/224.

Closing date for applications: 24th December 1987

Our Client, a small services organisation who play a key U.K. and multi-national role in a specialist technology field, have on offer a highly challenging position for a:—

BUSINESS DEVELOPMENT MANAGER

West of London **to £20,000+f.e. car**

You will be given the opportunity to fully utilise and develop your skills which will include a high degree of commercial acumen, developed in a contractual/engineering environment and high academic qualifications (preferably both a major Accounting qualification and a science/engineering degree.)

The Role will report to the Executive Director with responsibility for the finance department and commercial contracts and wil have significant interface with the Marketing department in an increasingly computerised environment.

The Rewards will include, in addition to a high benefits package, the opportunity to join a forward-looking, flexible organisation who can offer *the successful candidate the right* environment to enable you to achieve your full potential.

To apply for this role or for more information please contact Adam Lowe at the address below quoting ref. no. BB6663.

TELEPHONE: (0753) 854256 (out of hours (049481) 6360)

Management Personnel
Recruitment Selection & Search
51 High Street, Eton, Windsor, BERKS SL4 6BL

MANAGEMENT CONSULTANCY

£18-30,000
+ Car
City

Our client, *one of the world's largest firms of Chartered Accountants*, requires graduates, or qualified accountants, with systems accounting experience, to be involved in the specification, selection and implementation of mainframe based management information/accounting systems. Management consultancy offers the opportunity to gain exposure to a diverse range of blue chip companies, dealing at the highest levels. Offering variety and a steep learning curve, the roles also present a possible route to Financial Directorship.

CHIEF ACCOUNTANT

£23,000
+ Car
C. London

Our client is a subsidiary of a substantial and acquisitive media organisation. The company is at the forefront of the integration of public relations and advertising. Reporting to the Group Financial Controller and supervising 12 staff, the position embraces all aspects of financial control, management and financial accounting, the provision of management information and general commercial input. Candidates should be qualified accountants, aged under 35, possessing staff management experience, and seeking rapid progression.

ACCOUNTING MANAGER

c.£30,000
C. London

US based entertainment group with a major presence in the UK market seeks a qualified accountant with experience of US reporting. This is seen as a critical position in developing the international financial reporting system with the Company's European subsidiaries. It offers the opportunity to gain involvement in analysis, budgeting and forecasting for these subsidiaries. A minimum of 5 years experience within a multi-national environment is necessary together with a proven track record and the ability to succeed.

Please apply directly to Richard Carter at Robert Half, Freepost, Roman House, Wood Street, London EC2B 2JQ.
Telephone: 01-638 5191.

Financial Recruitment Specialists
London · Birmingham · Windsor · Manchester

ROBERT HALF

Chief Financial Officer

c. £45,000 package **Sussex**

Our client, GRANFEL PLC, has a fast-growing international business in *luxury hotels, property development and world class leisure facilities.*

We are looking for a chartered accountant to join an integrated team of dedicated professionals and contribute financial expertise, accounting skills and business acumen. This includes group and subsidiary accounting, acquisitions and disposals, development monitoring, strategic planning and expansion finance.

Candidates must have superior modern people-skills that supplement exemplary technical ability and a track record of success and imagination in relevant industries. Practical experience of North American business is an asset.

The job is based in rural Sussex with travel to other Company locations where Granfel's customer-conscious policy is linked to community involvement and enlightened personnel development. A flexible package of salary and benefits will be negotiated to motivate the right person towards exciting personal prosperity and influence.

Applicants to the mid-forties should write, quoting reference 1527 and enclosing a full CV, details of current earnings and a daytime telephone contact, to:-

BinderHamlyn MANAGEMENT CONSULTANTS
Trevor Austin, Executive Selection Division,
Binder Hamlyn Management Consultants,
8 St Bride Street, London EC4A 4DA.

International Appointments

A Challenging International Role

AUSTRADE
Australian Trade Commission
THE NEW NAME IN EXPORT FACILITATION

The *Australian Trade Commission is dedicated* to the identification and development of international business opportunities for Australian industry by providing timely, relevant and high quality services covering a broad range of export facilitation activities.

Finance Insurance and Projects Group
SYDNEY — AUSTRALIA

The Finance Insurance and Projects Group of the Australian Trade Commission provides a specialised range of lending, credit insurance and other services to exporters and financial institutions and plays a vital and expanding role in supporting Australia's international trade. It enjoys excellent working relationships with both the exporting and financial communities.

The Group is now seeking a suitably qualified and experienced senior manager for the following position located in Sydney.

MANAGER
Group Development & Services
Base Salary $A58,920–$A63,686

The position also carries a market related benefit package to be discussed at interview and there are options for permanent or contract appointment. Appointment will be made at a level which will recognise the qualifications and experience of the successful applicant.

The Manager — Group Development & Services Division will report directly to the Group General Manager and will be a key member of the Group Management team. Responsibilities include the co-ordination of the work of the Manager Corporate Services, Manager Business Development and the office of the General Counsel.

These three units provide a wide range of professional, technical and administrative services to the Group Divisions. The Divisional Manager will ensure that all institutional, statutory and commercial service requirements are provided and will maintain a management interface between the *development of Group activities and service* requirements. The development of Group management information systems and controls will be an important focus of the Manager's task as will the encouragement and development of new products for the client community.

Senior management experience in banking, insurance, or related government organisations and a commitment to the success of Australian exports are the likely background for the successful candidate. Tertiary qualifications and corporate management experience are highly desirable.

For further information please contact Dr Fisher, (Sydney) 61 02 231 2655. Applications should be forwarded by fax: (612) 251 3851. Attention: Dr D. Fisher, General Manager.

AB1-3226

Finance Director Designate

Consumer Products

c.£25,000 + car *North Home Counties*

A rapidly developing company specialising in design, assembly and marketing of a range of high quality domestic products for the retail market requires a Finance Director Designate.

Reporting to the Managing Director you will control the finance function within the company and its separately managed subsidiaries. An early priority will be further development of systems during a period of growth and change.

A qualified Accountant (aged 28-35), you will probably be responsible for the finance function in an equivalent-sized business (£10m turnover). Experience in the development of computer systems for *financial control is important, as also is* commercial awareness and the ability to make a positive contribution to the senior management team.

In return, a substantial rewards package is offered together with comprehensive benefits which include relocation expenses where appropriate.

Please write with full personal and career details to Confidential Reply Service, Ref 9686, Austin Knight Advertising Limited, 17 St. Helen's Place, London EC3A 6AS.

Applications are forwarded to the client, who plans to arrange interviews for early January 1988. Please list any companies in which you are not interested in a covering letter.

Austin Knight Advertising

Financial Controller

International Construction

Circa £22,000 + Car + Benefits

Our client, a major Manager of Construction projects overseas, and part of a household name PLC with turnover in excess of £2 billion, has a vacancy for a FINANCIAL CONTROLLER based Central London.

Reporting to the Finance Director you will, in addition to the day to day running of the Head Office Accounts function, have responsibility for:—

- The monitoring and assessment of the financial performance of overseas operations, and for the management of the activities of qualified Project Accountants.
- Preparation of annual and periodic Company accounts.
- Treasury and taxation matters.
- Ongoing development of computerisation both within the Finance function and Company systems.

One will also work closely with the Finance Director in carrying out specific financial appraisals and reviews, with progressive opportunities for involvement in the financing of projects overseas, *through liaison with Government development agencies, and the assessment of their financial viability* at pre-contract stage.

You will be a qualified accountant with at least 7 years broad financial experience, and with the ambition to take full advantage of the career opportunities in this large Group. The position will involve *extensive overseas travel*, since you will be operating in a truly international financial *environment.*

Please send full c.v. quoting Ref: LC 768 to the address below.

Applications will be forwarded straight to our client, so please indicate any companies to which you do not wish to apply.

ROBERT MARSHALL ADVERTISING
LIMITED
44 Wellington Street, London WC2E 7DJ.

FINANCIAL CONTROLLER
Circa HK$600,000 + Housing + Excellent Benefits

This is a senior appointment with a major, publicly-listed utility company in Hong Kong. The incumbent reports to the Head of Finance & Administration, and will be responsible for the successful conduct of all financial, budgetary and accounting activities, in order to ensure compliance with the Company's statutory, regulatory and *commercial obligations.*

While nationality is open, prospective candidates should possess the following key attributes:

* a professional qualification in accounting (ACA, ACCA or equivalent);
* approximately 40 years of age with progressive experience in finance leading to senior management position;
* articulate and excellent communication and interpersonal skills;
* stature and presence commensurate with such a senior appointment.

Interested parties should write to the Company's consultant:
The Director
605 Wilson House
19-27 Wyndham Street
Central
Hong Kong

Our Client, a small services organisation who play a key U.K. and multi-national role in a specialist technology field, have on offer a highly challenging position for a:—

BUSINESS DEVELOPMENT MANAGER

West of London **to £20,000+f.e. car**

You will be given the opportunity to fully utilise and develop your skills which will include a high degree of commercial acumen, developed in a contractual/engineering environment and high academic qualifications (preferably both a major Accounting qualification and a science/engineering degree.)

The Role will report to the Executive Director with responsibility for the finance department and commercial contracts and wil have significant interface with the Marketing department in an increasingly computerised environment.

The Rewards will include, in addition to a high benefits package, the opportunity to join a forward-looking, flexible organisation who can offer the successful candidate the right environment to enable you to achieve your full potential.

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TELEPHONE: (0753) 854256 (out of hours (049481) 6360)

Management Personnel
Recruitment Selection & Search
51 High Street, Eton, Windsor, BERKS SL4 6BL

MANAGEMENT ACCOUNTANT

Salary c.£16/17,000
Pref age: mid/late 20's

The Financial Times is seeking to recruit a qualified (ACMA,ACCA or ACA) Management Accountant.

Experience in Management Accounting is not essential but desirable. A background in publishing or an allied business would also be an advantage.

Applicants should preferably be computer literate or have a definite interest in computer applications.

The successful candidate will provide a management accounting service for various activities within the Financial Times Group. He/she will prepare monthly management accounts, annual plans, budgets and forecasts for the divisions they are assigned to and take an active part in the preparation of the Group's annual accounts. He/she *must be willing to take on a variety of related duties, such as any ad hoc exercises or* the compiling of any necessary ancilliary records.

It is essential that the successful candidate not only has the skills necessary for the job but also has an ability to communicate.

Please apply in writing enclosing full CV to:
Personnel Department, Financial Times,
Bracken House, 10 Cannon Street, London, EC4P 4BY

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Thursday December 10 1987

Icahn shuffles his stock holdings in Pennzoil, Texaco

BY JAMES BUCHAN IN NEW YORK

Carl Icahn: pressing for a settlement

MR CARL ICAHN, the New York-based takeover specialist who is pressing Texaco and Pennzoil to settle their long-running legal dispute, has shuffled his stock holdings in the quarrelling oil groups between two companies he controls.

Trans World Airlines, which is three-quarters owned by Mr Icahn, said yesterday it had sold half its position in the two companies to ACF, a St Louis railcar leasing and manufacturing company which Mr Icahn bought for $405m in 1984.

TWA said ACF would buy half of the 12.1m shares in Texaco that could become available under a right of first refusal granted by Mr Robert Holmes a Court, the Australian entrepreneur, 10 days ago.

The deal is apparently designed to spread the risk of Mr Icahn's current investment – worth more than $500m in Texaco alone – away from the heavily-indebted airline and on to a new source of capital. Taking majority control of Texaco, which is operating in bankruptcy to escape enforcement of a $10.3bn damages judgment awarded to Pennzoil, would cost Mr Icahn some $4bn.

Ten days ago, TWA bought 12m shares in Texaco and voting powers and a right of first refusal over a further 12.1m from Mr Holmes a Court. The block gives Mr Icahn effective control over 12.3 per cent of Texaco and he has won recognition as a big force in attempts to push the companies towards settlement.

TWA and Mr Icahn are believed to control up to 2 per cent of Pennzoil, which won the judgment on the grounds that Texaco interfered with an allegedly binding contract to buy Getty Oil in 1984.

Small advance at Varity

BY DAVID OWEN IN CHICAGO

VARITY, the Canadian farm equipment and industrial engine maker which changed its name from Massey-Ferguson in 1986, this week posted a small quarterly profit.

The results were buoyed by improved contributions from Varity's Perkins diesel engine, Dayton Walther automotive components and Massey-Ferguson tractor subsidiaries.

However, the performance of Massey Combines, the combine harvester maker in which Varity holds a 46 per cent equity interest, has been so disappointing that the company has written down its investment by US$17m during the first three quarters to reflect losses. This leaves a balance of only $15m.

Varity expects demand for combine harvesters this year to hit another record low.

In the third quarter to October 31, the company reported net income of US$5.7m or 1 cent a share, against a loss of $19.7m (14 cents a share) in 1986. Net sales advanced to $464.8m from $256.2m a year ago.

UK CARRIER RECOMMENDS SWEDISH OFFER IN PREFERENCE TO BRITISH AIRWAYS BID

SAS plans partial bid for BCal

BY CLAY HARRIS IN LONDON

SCANDINAVIAN Airlines System plans to pay £130m ($234m) for an initial 23.5 per cent voting stake in British Caledonian Group under an agreed recapitalisation package announced last night. The proposal includes the injection of £50m in new capital.

The BCal board unanimously recommended the SAS partial offer in preference to a rival full bid from British Airways, but urged shareholders to delay acceptance until SAS receives approval from the Civil Aviation Authority.

The recapitalisation was launched even though SAS earlier yesterday failed to win a firm promise from the CAA that BCal would be allowed to retain its route licences if it took a partial stake.

Under the SAS package, Investors in Industry (3i), the investment group owned by UK clearing banks, will remain the single largest shareholder in BCal with a voting stake of 23.53 per cent, just barely larger than SAS's. 3i holds 41 per cent at present.

A BCal employee trust will also take a 7.19 per cent stake in the airline.

The BA board was studying the proposal last night. The company's initial reaction was that the plan failed to address the issues of foreign control of BCal raised last week by Mr Paul Channon, Transport Secretary.

The CAA sought additional clarifications from the Scandinavian airline at a 2½-hour meeting yesterday morning. The agency said it could not give an immediate judgment but indicated it would be able to meet BCal's request for an answer no later than Monday.

The SAS package will allow BA to raise its own bid. It had said it would not unless a competing offer emerged.

SAS is to offer £20.44 per share in cash for 26.14 per cent of BCal's existing shares. The £110m total comes close to the £119m value of BA's cash terms for the entire airline. The BA share offer was worth £148m yesterday.

The SAS holding will be diluted to 23.5 per cent by the first of two rights issues which are part of the recapitalisation package. The first, underwritten by UK institutions and the employee trust, will raise £30m.

The second, to raise £20m, will be underwritten by SAS. If it takes up all the shares "and when the relevant regulatory authorities and environment permit" – a reference to European Community as well as UK regulations – SAS will have a 40 per cent voting stake.

Sir Adam Thomson, BCal chairman, said last night that directors believed substantial financial benefits would flow from an association with SAS.

SAS launched its offer despite indications that UK government ministers remain opposed in principle to the airline taking a role at BCal, in part because of the partial state ownership of the Scandinavian airline.

The Swedish, Danish and Norwegian governments indirectly own half of the SAS consortium.

BCal and SAS are advised respectively by Goldman Sachs and Morgan Guaranty.

John McIlwraith samples the atmosphere at the Bell Group's AGM

Clap on back for Holmes a Court

MR ROBERT Holmes a Court, the Australian investor who has raised more than A$1.4bn ($981m) in a sale of assets since October's market collapse devastated his corporate value, faced up to his shareholders yesterday, his usual ebullience tinged with black humour as well as a measure of contrition.

At the annual meeting of his Bell Group in Perth Mr Holmes a Court – making his first detailed public pronouncement since Black Monday – acknowledged before the 1,000 gathering that the company had been "too exposed" when the crash occured.

Considerable restructuring would be necessary he said and he agreed that Bell was still vulnerable.

Shareholders, however, were having nothing of it. In a stubbornly cheerful response, they punctuated his speech with applause, congratulated him for what had been achieved to restore Bell's fortunes since the crash, and passed by acclamation an apparently spontaneous vote of thanks.

One of the loyal band, asking how shareholders could help the board, suggested that they forego their recently announced 5 cents a share dividend.

Mr Holmes a Court gently reminded him that the cheques were already in the mail.

"It was as if Hitler had surrendered at Dunkirk," said one bemused stockbroker, observing the laughing matrons, who had seen the value of their investment fall 80 per cent from its peak.

Another analyst described the day's outcome as not only the best Mr Holmes a Court could have wished for, but the most successful exercise in shareholder relations he had ever held.

The Bell chairman – one of the decade's most closely watched operators in British, US and Australian markets – suggested that up to A$600m in disposals were still to come.

This would meet a A$2bn target which he and his board had set immediately after the crash, and which remained broadly in place.

However, he ruled out a sale of his 14.9 per cent holding in Standard Chartered, arguing that the market grossly undervalued the UK bank at present, that Bell was represented on the board and there were strong links between the two companies.

He excluded any sale of Bell International's property arm in Britain, because it was a strong income producer, but made no specific commitment to his 8 per cent of Sears, the British retailer.

Mr Holmes a Court also declined to discuss the future of his near-30 per cent investment in Broken Hill Proprietary, Australia's biggest company, or his remaining 5 per cent stake in Texaco, the embattled US oil giant.

The A$1.4bn raised so far remained on deposit at the banks and no loans had been called in. Some of the funds would indeed be used to reduce debt, but part would also be used to buy new assets.

The acquisition programme would proceed "much more gently" than in the past.

He acknowledged that he was negotiating with a potential partner to sell a half interest in the Australian Financial Review and associated media interests which he is acquiring from the Fairfax family.

Wryly, he reminded shareholders of his frequently quoted hypothetical shareholder.

Each year Mr Holmes a Court estimates the growth in the value of a A$10,000 investment made 16 years ago – at June 30, it would have been worth A$30m.

However, he warned that shareholders could not rely on any significant price improvement in the short term.

Fluor rebounds to $145m profit after years of losses

BY RODERICK ORAM IN NEW YORK

FLUOR, the California-based plant engineering and construction group, has reported its first profit in three years, thanks to a rapid pick-up in orders and the fruits of its large-scale restructuring.

Net profits for the fourth quarter which ended on October 31 were $145.5m or $1.82 a share, against a loss of $56.6m or 71 cents a year earlier. Revenues rose to $1.21bn, from $978.3m. The large bulk of profits this year and losses last year came from discontinued operations. Continuing operations generated net profits of $24.2m, against a loss of $23.1m a year earlier.

For the full year, Fluor reported net profits of $26.6m or 33 cents a share, against a loss of $60.4m or 76 cents a year earlier, on revenues of $3.92bn, against $4.34bn. The $75.3m loss from continuing operations included in the latest period largely reflected real estate and interest costs which would not recur next year.

During the year, Fluor's engineering and construction operations booked orders worth $4.1bn, an increase of 36 per cent over the previous year.

Following the sale of most of its natural resources operations, Fluor restated its balance sheet on current values. The net effect was to reduce shareholders' equity by $438m, to $532m, and cut book value per share to $6.74, from around $12.

Mr David Tappan, the company's chairman, said 1987 marked the end of Fluor's restructuring programme, which has refocused the business in the engineering and construction areas.

Asset disposals, notably the $500m sale of St Joe Gold to Mr Alan Bond, the Australian resources magnate, for $500m, generated about $750m in cash in the current calendar year.

Fluor was able to reduce its long-term debt to $233m at the end of the year, from $519m a year earlier. It has cash on hand of around $500m with which it hopes to pay down more debt and make some acquisitions.

GE and IBM in pact on semiconductor research

BY LOUISE KEHOE IN SAN FRANCISCO

US TECHNOLOGY groups General Electric and International Business Machines have signed a semiconductor technology development agreement which could catapult General Electric into the forefront of the semiconductor market.

The agreement calls for the co-operative development of new application-specific integrated circuit (ASIC) technologies and components for use in future IBM products. The agreement will also, however, provide GE with advanced semiconductor technology that could enable the company significantly to expand its participation in the semiconductor market.

ASICs represent about 15 per cent of the total $25bn worldwide semiconductor market and are expected to grow at an annual rate of about 25 per cent to represent close to a third of the projected $50bn semiconductor market by the mid-1990s.

Mr Carl Turner, vice president and general manager of GE Semiconductor Business, said: "Through joint development agreements, alternate source agreements and exchanges of technology, we are preparing to compete worldwide in the semiconductor marketplace

This marks a dramatic reversal of strategy for GE, which only nine months ago was considering pulling out of the merchant semiconductor market to concentrate solely on making semiconductors for its own use.

INTERNATIONAL COMPANIES & FINANCE

Daimler-Benz expects satisfactory earnings

BY ANDREW FISHER IN FRANKFURT

DAIMLER-BENZ, the diversified West German motor group, said it again expects to report a "satisfactory result" for 1987, in spite of the effects of the dollar's fall and the uncertainty on world financial markets.

Production and sales had remained at the high levels reached after several years of above-average growth, it added. Turnover would exceed DM66bn ($40bn), with the expansion of about DM1bn coming mainly from the vehicles business – which accounts for three-quarters of group activities.

Daimler said group capital spending would exceed DM4bn this year. About DM2.5bn of this would be accounted for by the parent company, now beginning a big investment programme in cars.

At the upper end of the market, Daimler has recently come under strong competition from BMW's new 7-series.

The group has already said it aims to invest about DM24bn over the next five years, mostly in developing and building new car models. This year's car output will total around 597,000 units, some 3,000 higher than in 1986.

Edzard Reuter: chairman of Daimler

Daimler had planned to build just over 600,000 vehicles, but reined back output in line with economic uncertainties.

On the truck side, where demand in Europe has picked up, Daimler expects to lift total output by 9,000 units to 235,000, mostly through stronger growth in its US, Spanish and Argentinian plants. In its German plants, truck output will be static at 144,000 units.

In 1986, Daimler made a net profit of nearly DM1.8bn. Some analysts expect a slight decline in earnings next year after a static 1987.

To reduce its dependence on vehicles, the group has expanded into electronics (AEG), engines (Motoren-und Turbinen-Union), and aerospace (Dornier) in the past few years.

●BMW is likely to invest more than DM1bn over the next few years in taking stakes in high technology concerns. By the middle of the 1990s, said Mr Wolfgang Aurich, a director, between 10 and 20 per cent of turnover could come from outside the car sector.

The Munich concern already has minority stakes in Loewe Opta, a West German electronics company, and the Softlab software house. It also has holdings in Cisigraph, a French computer-aided design firm, and Balland, a Swiss paints producer.

BMW will still be far more heavily oriented to cars than Daimler. But it is ready to invest more money in high-technology companies allied to the motor industry.

Moet sells horticulture unit

BY PAUL BETTS IN PARIS

MOET-HENNESSY, the French champagne and cognac group which earlier this year merged with Louis Vuitton to form the LVMH luxury goods conglomerate, has sold control of its troubled US horticulture business to Shaklee Corporation, one of the leading US mail order companies.

Moet diversified into the US nursery business in 1982 by acquiring Armstrong Roses of California, the second largest rose producer in the US. But the prickly blooms have been a persistent thorn in the French group's side.

During the last few years, Moet has launched a big restructuring programme aimed at stemming Armstrong's losses.

However, Moet has now decided to shed control of this business to Armstrong's main rival, Jackson and Perkins, the leading US rose producer which is controlled by Shaklee.

The disposal will leave Moet with a minority interest in Armstrong. The overall transaction has been valued at about FFr100m ($17.7m).

The deal also envisages collaboration between Jackson and Perkins and Delbard, the French flower subsidiary of the Moet group.

In contrast to Armstrong, Moet's investment in Delbard has been profitable and has seen the subsidiary double its sales during the last three years.

Moet decided to diversify into the flower business five years ago as it became increasingly interested in biotechnology applications and the production of flowers and plants by the "in vitro" or test-tube method.

The group, which is the world's leading champagne producer, is particularly interested in the application of these new techniques for vine production.

Siemens in component talks with US group

By Our Frankfurt Staff

SIEMENS, the West German electrical and electronics group, is discussing possible co-operation in the fast developing car electronics sector with Allied Signal, a leading US company.

Like AEG, in which a majority stake is owned by vehicle maker Daimler-Benz, Siemens is aiming to build up its business in electronic components for the motor industry, thus challenging Robert Bosch of Stuttgart.

Siemens executives have made it clear that they see considerable scope for expansion in the area, especially at the high-quality end of the car market in which German companies are among the world's top manufacturers.

The Munich-based company said it was too early to comment on whether its talks with Allied Signal would lead to a partnership.

Earlier this year, Siemens signed a co-operation deal with a European subsidiary of Rockwell International of the US. This covered the development of electronic components used in sliding roofs, windows, seat-moving systems and locks.

Siemens expects worldwide demand for vehicle electronics to grow from about $5bn last year to $16bn in 1995. Growth in Germany should be faster than in other markets, with the electronic content of cars tripling by value.

With more than half of all Germany cars being exported, Mr Hermann Franz, a director of Siemens, said recently: "German manufacturers can only survive if they bring in highly sophisticated models."

Philips delays plan to float Polygram

BY LAURA RAUN IN AMSTERDAM

PHILIPS, the Dutch electrical group, has postponed plans to publicly float 20 per cent of Polygram, its music production subsidiary. The operation was originally expected to raise about $250m.

Philips blamed the continuing turmoil in world financial markets following the October crash for its decision to delay the initial public offering until next year. The international offering was originally planned for November.

The group still intends to offer 20 per cent of Polygram to the public but the "appropriate moment...will depend on the stock exchange climate."

It confirmed it did not have to pay any financial penalty to the underwriting syndicate.

Polygram features some of the most prestigious names in music recording, including Deutsche Grammophon, Decca, Polydor and Casablanca. It reported operating profits before extraordinary items of Fl 170m ($90.9m) on sales of Fl 2.9bn in 1986.

Until a few years ago, however, Polygram was an albatross around Philips' neck, losing nearly $300m between 1979 and 1982, mostly in the US.

In 1985, Philips reluctantly bought out most of the stake in Polygram held by Siemens of West Germany, with which Philips established the subsidiary in 1962. That gave Philips 90 per cent of a financially troubled company and the parent vowed to find a new partner to take over half of the operation.

No partner was found but Polygram pulled back into the black on the back of its compact disc expertise. Earlier this year, Philips bought out the remaining 10 per cent stake from Siemens.

Puma forecasts reduced losses for current year

BY OUR FRANKFURT STAFF

PUMA, the West German sports shoe and clothing company, hopes to return to break even next year after reducing its losses in 1987.

This year's shortfall should be down to about DM35m ($21m) from DM40m in 1986, the company said yesterday. For 1988, the outlook justified "cautious optimism."

Puma, which suffered badly in the US market last year shortly after issuing preference shares to the public, said losses there would be halved this year, at about $17m.

Problems stemmed mainly from failure to react fast enough to changing fashions, especially in the leisure and aerobic sector where Reebok, one of the group's chief competitors, introduced new styles.

The company has recently exerted more control over its US distribution network and introduced greater flexibility. It has also closed unprofitable factories in Germany and France and trimmed costs and staff.

Puma recently appointed a new chairman, Mr Hans Woltschaetzke.

Turnover this year should show a 4 per cent decline to DM675m, an improvement on the 8 per cent drop to DM555m at the 10-month stage.

Puma said the lower sales reflected stiffer competition, lower domestic orders and the impact of the dollar's fall on exports.

The company said its 1987 result would suffer both from the tougher business environment and costs of rationalisation measures, which would have a positive impact next year.

Lufthansa sees sharp return to profits

By Our Financial Staff

DEUTSCHE Lufthansa, the West German airline, expects parent company operating earnings to rise to about DM100m ($60.2m) for 1987, compared with a loss of DM66.6m in 1986. However, the outcome will fall short of the DM200m forecast by Lufthansa earlier this year.

Operating profit doubled in the first 10 months of the year to DM232m. But, because of seasonal factors in November and December, profits were likely to be lower at the end of the year, the company said.

Turnover in the first 10 months rose to DM8.76bn from DM8.20bn in the comparable 1986 period. Freight tonnage is expected to improve by about 10 per cent for 1987 as a whole.

Lufthansa's profit increase was attributed, in part, to lower costs and to improved passenger figures, forecast at about 18m for 1987 after 16.6m in 1986.

But the number of passengers travelling on reduced fares partially offset the gains from the rise in volume, the company said.

Unilever offshoot to buy specialty tea merchant

BY OUR AMSTERDAM CORRESPONDENT

UNILEVER, the Anglo-Dutch food and detergents group, is to purchase Celestial Seasonings of the US, a maker of herbal teas, in a move aimed at widening its international tea activities.

Thomas J. Lipton, Unilever's US subsidiary in tea and soups, will acquire Celestial Seasonings from Kraft of the US for an undisclosed cash sum next month. The specialty tea purveyor, based in Boulder, Colorado, has an annual turnover of $35m and employs 230. It sells in the US and exports to Canada, Britain Australia and New Zealand.

The acquisition is in line with Unilever's strategy of concentrating on its core activities - beverages, dairy products, convenience foods, detergents, personal care products and specialty chemicals - and moving toward higher value-added products. Some of its wellknown brand names are Lipton Tea and Viennetta ice cream.

Celestial Seasonings has achieved wide recognition with its range of herbal and specialty teas.

Focobank sale dispute

PROCEEDS OF the SFr150m ($110m) sale of Switzerland's Foreign Commerce Bank (Focobank) to the NZI group of New Zealand have become the subject of a civil lawsuit in the US, **John Wicks writes from Zurich.**

Mr Leslie Merszei and Mr Hans-Peter John, financiers working from Zurich and London, are instituting proceedings against Mrs Carol Sui Han Leo, of Colorado, as beneficiary of a Hong Kong trust which, prior to the NZI purchase, held a 95 per cent indirect stake in Focobank.

Mrs Sui Han Leo is the daughter of Tan Sri Wen, the Malaysian property developer whose interests acquired Focobank in 1985. Mr Merszei and Mr John see Mrs Sui Han Leo as an "unlawful beneficiary," claiming that Tan Sri Wen had promised them first refusal on 60 per cent of the bank.

INTERNATIONAL COMPANIES & FINANCE

First-half advance by Wharf Holdings

By Kevin Hamlin in Hong Kong

WHARF HOLDINGS, the recently reorganised Hong Kong property and transport concern controlled by Sir Yue-Kong Pao, boosted attributable profits by 63 per cent to HK$645.4m (US$82.7m) in the six months to September.

Mr Peter Woo, the chairman, said the outcome was mainly due to a "steady performance in the core property, hotels, terminal and transport divisions which, combined, showed a 38 per cent net improvement." Harbour Centre Development, Wharf's hotel subsidiary, recorded a 78 per cent increase in interim net profit to HK$48.5m.

The overall group result was bolstered by an extraordinary gain of HK$205.3m, resulting primarily from the disposals of Wheelock Marden, a trading company, and Hongkong Realty and Trust, a holding company, in April and May. These were moved into World International, Sir Y.K.'s ultimate holding company, as part of a reorganisation.

In October 1986, Wharf also sold its 55.6 per cent stake in Lane Crawford, the department store, to World for HK$692m.

Profit before extraordinary items was up 11 per cent to HK$440.1m, while turnover, reflecting the reorganisation, fell 32.3 per cent to HK$1.2bn. Operating profit also declined, by 7.4 per cent to HK$510.8m.

Mr Woo said operations had not been directly affected by the stock market crash in October, but added: "If the US economy goes into a slowdown next year, Hong Kong's trading and tourist activity will be affected accordingly. The group is therefore taking a cautious attitude towards planning for 1988."

The interim dividend is 10 cents per share against 9 cents.

Judith Maltz on the dramatic change in Israeli bank fortunes

Big five get back to business

ISRAEL'S banking system is enjoying its best year ever, with total annual profits forecast to reach a record US$250m. In the first nine months of 1987 the country's five largest commercial banks earned Sh315m ($196m), after barely scraping together Sh90m in all of 1986.

Net returns on capital are showing a marked upward trend, with both Bank Hapoalim and Bank Leumi le-Israel, the two leaders, achieving annualised averages of about 11 per cent in the first three quarters of the year.

Last year, in contrast, they were struggling around the 1 to 2 per cent mark. Mr Emmanuel Sivan, managing director of Hapoalim, shows obvious relief when saying: "There is no doubt our banking system today is back on a positive trend."

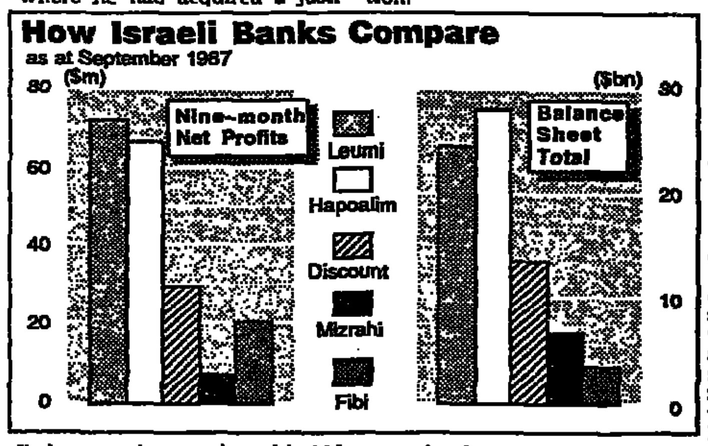
But it is more than just the bottom line figures which have shown a dramatic change: Israel's banking system, racked by a slew of scandals since 1983, when it was held responsible for a stock market collapse, has finally found the time this year to devote itself to what one official terms "the plain old business of banking." What characterises this new orientation most vividly is the increasingly fierce competition emerging among the banks.

Growing advertising budgets, innovative savings and loan schemes, and the introduction of new types of financial instruments like futures contracts are all part of this trend. In recent years, it was First International Bank of Israel (Fibi), the smallest of the big five, which had led the way in innovation and profitability. "We know things are back to normal now," remarks an executive of one of the larger rivals, "with the two big banks once again setting the pace in these areas, as they should."

Indeed, the fresh blood injected at the top levels of all the big banks – and the resultant sweeping changes in both style and substance – has been no small factor in gettingthe industry back on its feet.

"The new management has an advantage in that it is not bound by the decisions of the past," says Mr Zadik Bino, Leumi's bright, young managing director, captured last year from Fibi, where he had acquired a justified reputation as the whizzkid of Israeli banking.

How Israeli Banks Compare
as at September 1987



But even more important has been the overall economic recovery, which has stabilised inflation and permitted the banks to increase significantly the share of their activities in unlinked shekels – market interest-related deposits – which was always their most profitable segment, as it has been the least subject to government regulation.

The proportion of these operations in the total activities of the banks has grown from under 2 per cent two years ago to close to 15 per cent today, accounting for 40 per cent of the banks' total profits.

Ancillary factors such as continued cost-cutting, the offloading of non-bank assets, and a significant cut in corporate tax rates this year have also contributed to improved profitability. The banks are proud to point out that the dramatic rise in net earnings this year, following a particularly poor performance last year, has been achieved in spite of frozen commission rates, larger provisions made for bad debts, and falling margins – a consequence of stiffer competition.

A cloud on the horizon in recent weeks, however, has been growing friction between the commercial banks and the Central Bank over new regulations raising liquidity ratios, which have had the effect of hoisting already high interest rates.

Just how intense banking competition in Israel has grown lately becomes clear when asking the country's top bankers an otherwise harmless question: Which is Israel's leading bank today? Hapoalim insists it is still number one, with its balance sheet, at $27.9bn, some 15 per cent larger than Leumi's. "Bank Hapoalim, at least for the next two years, will remain the larger of the two," insists Mr Amnon Herzig, the bank's spokesman.

But Leumi, which, through Mr Bino's influence, has reduced emphasis on size, insists that it has regained its traditional spot at the head of the pack in profitability. Hapoalim takes credit for ushering in the era of heightened competition among the banks, the result of what it describes as a revolution in its own marketing strategy.

The traditional client base of the labour-federation owned bank had been towards either end of the market – large companies and small savers. But, because the corporate market has become more risky in recent years and Israeli companies are increasingly looking abroad for financing, Hapoalim decided to set its sights on previously untouched territory – small and medium-sized businesses. This middle ground has become the main source of profits for the country's banking system.

With all the banks now concentrating their efforts on the same market segment, the aim is to devise the most novel and attractive savings and loan schemes. In October alone, when $1.2bn worth of bank shares were up for redemption, Hapoalim launched three separate mutual funds in the hope of recycling the freed funds back into its accounts.

Not to be outdone, Leumi has begun quoting the prices of its "very cheap" loans on billboard ads, a previously unheard-of practice in Israel. Leumi acknowledges that, to keep up with the competition, it had to double its advertising budget this year to $5m

As an extra touch, designed to get rid of what is widely regarded as its fuddy-duddy image, Leumi has paid Yardena Arazi, Israel's most popular singer, upwards of $100,000 to feature in its advertisements. This is just part of Mr Bino's efforts to bring a more dynamic air to what was probably the most badly bruised of the country's banks.

Amatil lifts earnings despite higher tax

By Chris Sherwell in Sydney

AMATIL, the 41 per cent-owned affiliate of the British BAT Industries, lifted after-tax profits by 13.1 per cent to A$85.3m (US$59.6m) for the year to October.

The rise came on turnover up by 10.1 per cent to A$2.14bn, the first time group revenue has passed the A$2bn mark.

Apart from cigarettes, Amatil's products in Australia include beverages, snack foods and poultry products. It also has operations abroad.

Tough competition in the cigarette market saw a fall in tobacco profits from last year's record level. The group has undertaken a programme of new product launches and brand extensions.

The beverages division maintained strong growth in volume and profits, thanks partly to the acquisition of the Coca-Cola franchise in New South Wales. The snack foods and the poultry divisions also increased profits.

Amatil's pre-tax earnings showed a 19.4 per cent gain to A$144.7m but the group suffered a 30.8 per cent higher tax charge of A$59.7m. This reflected an increased corporate tax rate, the introduction of a fringe benefits tax and the ending of investment allowances.

It also reported extraordinary profits of A$49.6m, compared with gains of only A$2.5m in 1985-86.

The final dividend is 13 cents per share, making 24.4 cents for the year compared with 20.7 cents.

Petrocorp interim profit up 7.5% to NZ$45.7m

BY OUR FINANCIAL STAFF

PETROLEUM CORPORATION of New Zealand (Petrocorp), the oil company which is in the throes of being privatised, lifted net profits by 7.5 per cent to NZ$45.7m (US$29.2m) in the six months to September.

The outcome would have been below last year's interim result, however, were it not for the inclusion of a NZ$10.4m extraordinary loss charged last time, and a doubling of non-operating income in the latest period to NZ$1.6m. Net operating earnings were down 15.3 per cent to NZ$44.1m.

Sales rose by 16.4 per cent to NZ$285.7m. Output from the onshore McKee field made the largest contribution to sales growth as a result of stronger oil prices, Petrocorp's acquisition of the New Zealand Government's 51 per cent direct interest in the field, and an increase in production to 10,000 barrels per day from 8,700 b/d.

Tenders closed last week for the Government's remaining 70 per cent stake in the company. It has already sold 15 per cent to Brierley Investments and a similar proportion in a public share flotation. The latest offer is expected to result in a single corporate buyer for the majority block.

Mr John Anderson, chairman, forecast a full-year net profit of NZ$101m.

Stephen Fidler examines the outlook for international share trading

ADRs tough-out the stockmarket storms

IN INVESTMENT banking circles these days, to suggest that internationally-traded shares have been especially badly mauled in the turmoil since October's stock market collapse is to utter a terrible heresy.

After all, an industry has built up in the City around attempts by British companies to develop an international shareholder base. If the share prices of such companies fell further than others because foreigners were dumping shares, then the livelihoods of many highly-paid people in the City could be at stake.

Despite this important fact, a number of market observers have had the temerity to suggest that in uncertain times it may be natural for investors to withdraw to their home markets and that this tendency may have contributed to a poor price performance in recent months by certain internationally-traded shares.

Do the statistics back up such a claim? The focus of much of the argument has been the market in American Depositary Receipts, where underlying foreign shares are bundled for sale to US investors and which has been an important channel for many companies trying to widen their shareholder base.

Mr Paul Manson, research analyst at Kleinwort Grieveson Securities, has examined the performance of the dozen most actively-traded UK ADRs between October 15 – the Thursday before Black Monday – and November 4. Eight outperformed the Financial Times All-Share index and four – ICI, Jaguar, Reuters and Saatchi & Saatchi – underperformed it (see chart).

It can further be argued that the underperformance of the four companies was due not to their ADR programmes. The businesses of three of them, and in particular Jaguar, were viewed as vulnerable to an economic downturn in the US and a fall in the dollar, while Reuters was seen as being heavily exposed to the retrenchment of securities firms that the crash no doubt hastened.

While the raw figures suggest little correlation between an ADR programme and poor share price performance, except inasmuch as a company with US exposure is more likely to have such a programme, the story may not be quite so simple.

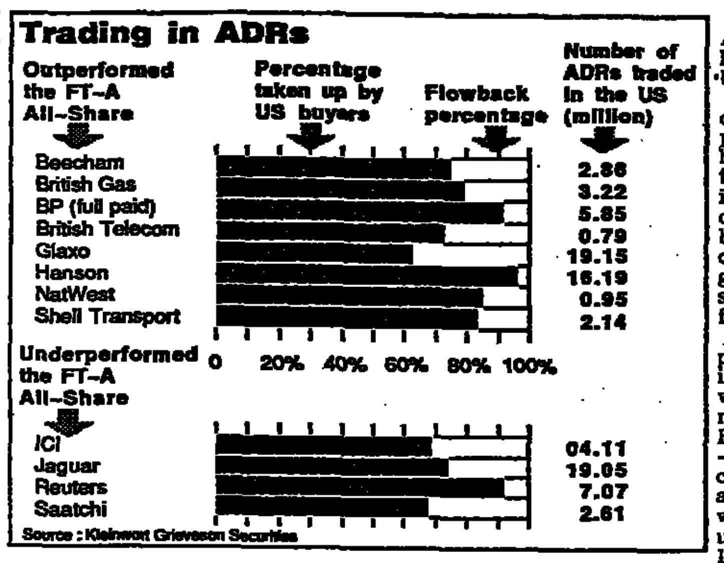
Salomon Brothers, for example, has calculated an index comprised of 25 British companies with ADR programmes in which the constituent stocks are weighted according to ADR trading volumes during "normal" times. The largest single constituent is British Petroleum, with a 19.08 per cent weighting, while Glaxo accounts for 17.21 per cent.

This index shows that, since the crash, ADRs as a group underperformed both the S&P 500 index in the US and the FT All-Share index in Britain when expressed either in dollar or sterling terms.

Furthermore, those shares which performed worst tended to have the most active programmes. Some 70.9 per cent of trading volume in Reuters, whose share price dropped 43 per cent in the two weeks to October 30, took place in ADR form. For Jaguar, whose shares were also down 43 per cent, the figure was 27.8 per cent and for ICI 15.3 per cent.

Glaxo, some 26 per cent of whose shares were traded in ADRs during that fortnight, was down only 16 per cent in price. But in the weeks leading up to the crash its shares had fallen, and much of the fall was laid at the door of US investors. Of the other companies with very active ADR programmes, only Hanson Trust – where ADRs represented 29.2 per cent of trading volumes – did relatively well, falling only 18 per cent in the period.

The evidence then from the price performance of ADR stocks is ambiguous: as a group they have, by some measures, underperformed. Yet, given their exposure to the US economic environment, they might have been expected to anyway.



Fortunately, more can be discovered about the performance of an ADR programme than by looking at share price performance.

Since ADRs are parcelled together by a limited number of US depositary banks, one can find out how many ADRs have been cancelled to get an idea of whether US holders of ADRs dumped their holdings of foreign shares back onto the home market during the crash. Even so, ADR cancellations do not tell the whole "flowback" story, since a minority of US investors can and do hold foreign shares in their underlying registered form.

There was undoubtedly heavy selling of ADRs by US institutions, including the mutual funds which had specialised in foreign stocks. Yet there is nothing in the evidence from the depositaries to suggest a siege mentality took over among US investors, or that the defensive strategies of US investors led to a huge flowback. Indeed, to dump foreign shares at a time when the dollar seemed to be destined to plunge further might be viewed as perverse.

"We have found that the majority of ADRs sold by US fund managers have been bought up by other US fund managers," said Mr Manson, who has surveyed the depositary banks. "While stocks have been sold back into their local markets, the liquidity of the ADR market in the US is now so significant that, in the crash, most of the ADRs traded were taken up by buyers in the US market."

Of the companies he has looked at, Reuters, which suffered the worst share price performance, experienced a minimal flowback. Only 8 per cent of the Reuter ADRs which traded in the fortnight around Black Monday flowed back to the UK market. This compares with 38 per cent for the better-performing Glaxo.

Some less actively-traded ADRs, however, did experience higher levels of flowback to the US market.

The Bank of New York, the depositary with the most ADR programmes for UK companies, has conducted an analysis on the flowback which took place during the crash. It found "little evidence of significant ADR flowback caused by recent market conditions." Its survey also suggested little correlation between share price performance and flowback.

In a sample of its major ADR programmes, it found that during the month of October there was a 6.4 per cent drop in the number of outstanding ADRs. From October 31 to November 17 – which is possibly more significant because many of the trades around the time of the crash would not have begun to settle until November – there was a 1.6 per cent fall.

This, says the bank, is well within its normal range: the number of ADRs in a normal month regularly varies by 3 to 7 per cent in either direction.

There was significant flowback, for example, in London International Group. The number of ADRs outstanding dropped by 18.6 per cent in October and by an extraordinary 33.3 per cent in November. On the other side of the coin, the number of BAT Industries ADRs fell by 0.2 per cent in October and rose by 15.3 per cent in the following month.

The rush among UK companies to list in the US and launch a sponsored ADR programme seems to have slowed, but not to have stopped. Three companies, Burmah Oil, WCRS and Dixons, have already listed in the US since the crash. Bank of New York says it has three more clients which are going ahead with listings. It admits, though, that now may not be the best time to link a listing with a public offering of shares into the US, common practice before the crash.

German prices improve but other sectors quiet

BY STEPHEN FIDLER, EUROMARKETS CORRESPONDENT

WEST GERMAN bond prices improved modestly in fairly active trading yesterday, but trading in most other sectors of the international bond markets continued very quiet.

Euro D-Mark bond prices improved, particularly for shorter maturities where they gained an average of 10 to 15 basis points. Some demand was cited in three to five- year maturities from Far Eastern investors. Longer maturities were left mostly unchanged, however.

The domestic market was quieter, with prices firming by a maximum of 10 basis points in longer maturities. There was little reaction to the Bundesbank's money market activities. The central bank said its previously-announced 35-day repurchase agreements would put back DM11.4bn into the banking system, compared with the DM11.8bn being drained this week.

There were expectations of a private placement of DM50m in a short maturity for an Irish name through a Japanese bank, but details could not be confirmed.

The US trade figures for October, due for release today, made for little movement in the US Treasury market yesterday. As a result, dealers reported almost complete inactivity in the Eurodollar sector and there were doubts it would revive this side of Christmas.

In the US market, a $250m Yankee issue for **New Zealand** was priced at 80 basis points over US Treasury yields, a somewhat wider margin than suggested by Tuesday's earlier market talk. With a five-year maturity, it was priced with a 9¼ per cent coupon and a 99⅝ issue price.

Dealers reported a continuation of modest retail interest from Switzerland and elsewhere in Continental Europe for Eurosterling bonds, which resulted in price gains of ⅛ to ¼ point yesterday. This demand has narrowed yield spreads with the UK government bond market, perhaps by 10 basis points over the last week, it is estimated.

INTERNATIONAL BONDS

The Euroyen sector was quiet too, following the Japanese government bond market, where yields on the benchmark issue slipped five basis points to 4.69/67. Dealers reported some switching out of longer maturity paper into five to six-year maturities.

In Switzerland, the foreign bond market firmed in reasonable turnover. The SFr118m issue for **Victorian Public Authorities Finance Agency,** launched on Tuesday, was quoted in the grey market at around less 1¾ bid, an improvement on Tuesday's close of less 2 bid.

There was confusion over a new issue led by Credit Suisse for **Skandinaviska Enskilda Banken,** its first foray into the Swiss market since 1976. The SFr100m issue, with a six-year maturity, a 4½ per cent coupon and a par issue price, was launched, apparently withdrawn, and then re-launched.

The lead manager, which attributed the confusion to a clerical error, could not confirm that Swiss Bank Corporation or Union Bank of Switzerland, the other leading banks in the main syndicate, were in the deal.

The only new issues announced in London were deals unlikely to be traded, since they were, or were likely to be, substantially placed in the Far East.

Cassa di Risparmio delle Provincie Lombarde, the Italian savings bank, launched a Y10bn, five-year floating-rate note issue with interest paid six-monthly at 55 basis points under the Japanese long-term prime rate and priced at 100.25. Lead manager was Taiyo Kobe International.

The other was a $37.4m floating-rate note issue in the name of **Wings 3,** a sole-purpose company, backed by $50.2m in Japanese ex-warrant bonds, 78.3 per cent of which are bank guaranteed.

The issue, led by Mitsui Finance International, carried a price of 100.1, a five-year maturity and pays 20 basis points over London interbank offered rate (Libor).

Keyscan starts rating service

BY OUR EUROMARKETS CORRESPONDENT

A NEW credit rating service intended to cover all borrowers in the international capital markets was launched yesterday in London.

The independent agency, called Keyscan, aims to compare borrowers in four different categories - sovereign, supranational, industrial and commercial companies and banks and other financial institutions.

They are ranked, based purely on published financial information, on a scale of 0 to 100. Borrowers are scored also according to their relative ability to meet interest payments and to repay principal.

The company published 677 ratings in its first bulletin yesterday, covering most issues in the market, but this number will eventually be expanded to 2,000 to cover all other borrowers in the market.

It says its advantage over other services is its comprehensive coverage and the simple-to-understand ratings scale, which is aimed at providing the quick reference that it says many users of the international markets want.

However, partly because its analyses are purely financial and do not take into account political risk, for example, many borrowers would probably be surprised by some of the ratings. Switzerland is the top-rated sovereign, with a score of 90. But Kuwait, with a score of 76 in line with Britain, scores more than the US, at 73.

Warner-Lambert of the US and GUS, the US stores group, are the top-rated corporate borrowers, with scores of 86, while the top-rated financial institution is Yorkshire Bank of the UK, with a score of 80. The same score from a different type of borrower is not comparable.

ABN reduces Bahrain offshoot staff by 11%

BY OUR FINANCIAL STAFF

ALGEMENE BANK Nederland, a leading Dutch bank, has reduced the staff of its Bahrain operation by 11 per cent to 62, according to local bankers.

The staff cuts, which came into effect over the weekend, have come primarily from ABN's foreign exchange operations.

Although one full-time currency dealer was among the staff cut, bankers said ABN will remain as one of the four banks which regularly participate in Bahrain's "weekend" foreign currency market.

The bank, which has been licensed as an offshore banking unit since 1975, is, however, expected to reduce its dealings in various cash markets, including the Saudi riyal

Salomon Brothers debt downgraded by S&P

STANDARD & POOR'S, the US rating agency, has downgraded Salomon Brothers debt, **Reuter reports from New York.**

It said the action, affecting $1.3bn of debt, reflects the firm's weaker operating performance, mainly due to the cost of its aggressive business and overseas expansion, volatile trading results and increased competition in its principal businesses.

It downgraded Salomon senior debt to A-plus from AA-minus, subordinated to A from A-plus and commercial paper to A-1 from A-1-plus.

While the firm's recent restructurings had cut operating expenses and eliminated low-margin businesses, the agency said Salomon management now faced the challenge of rebuilding the firm's earnings momentum.

CFTC in off-exchange trading move

By Deborah Hargreaves in Chicago

THE US Commodity Futures Trading Commission took an important step in developing its approach to the unwieldy area of off-exchange futures and options products this week. In a 28-page report, the CFTC proposed a framework for excluding certain off-exchange instruments from existing regulations.

A taskforce from the regulatory body has been examining the off-exchange area for over a year, with a view to developing a strategy for the CFTC by next spring. Its recommendation, which is now open for public comment, would simplify the approach to certain hybrid instruments by developing separate regulatory treatment for them.

Hybrid instruments, which combine some characteristics of a futures or options contract with other elements, are one of the most controversial off-exchange areas. They include cash-raising instruments such as oil-indexed notes or bank certificates of deposit with returns tied to the Standard & Poor's 500 stock index.

In the past, the CFTC has found it hard to regulate these instruments because of the difficulties in classifying them.

The CFTC is now proposing treatment outside existing regulations for instruments with minimal futures or commodity option characteristics, which it defines in its report. An additional proposal likely to cause consternation among existing futures and options exchanges is for certain hybrid options instruments to be allowed to trade over-the-counter. Exchanges have been pushing for regulations to force these products to trade on an exchange.

US futures and options exchanges have voiced loud opposition to the trading of off-exchange futures and options products without strict regulation and are likely to be lobbying the CFTC in the 60 days allowed for public comment on its report.

The CFTC's report also proposes a "no-action" clause for certain transactions that use hybrid instruments, but are conducted between commercial firms.

Exxon Chemical to expand in Belgium

EXXON CHEMICAL International plans to spend $6m at its hydrocarbon solvents plant in Antwerp, Belgium, to increase production capacity to 600,000 tonnes per year from 550,000 tonnes, reports Our Financial Staff. The expansion of the facility is aimed at meeting growth in demand for specialty hydrocarbon solvents, Exxon Chemical said.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on December 9

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey National 7⅞ 92	200	92⅞	92⅞	−0⅛	−0⅛	9.70
All Nippon Air 9⅞ 97	100	92⅝	93⅛	−0⅛	−0⅛	10.57
American Brands 8⅞ 92	150	96⅝	97⅛	−0⅛	−0⅛	9.72
A/S Eksportfinans 7⅞ 93	100	91	91½	0	−0⅛	9.64
[illegible]						

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Belgium 4⅞ 94	45	95⅞	96¼	+0¼	−0⅛	5.37
E.I.B 4⅞ 94	40	96¼	96⅝	+0¼	0	5.28
Elec. De France 5⅛ 94	20	99	99½	+0⅛	0	5.26
Kansai Electric 4⅞ 94	60	95	95½	[illegible]	[illegible]	5.55
[illegible]						

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]						
Chiba Bank 2⅞ 02	*†1/87	790.5	87	88	+0⅛	16.96
Fuji Hvy Inds 3 00	8/85	676.	175	175	0	3.34
Fujitsu 3 99	5/84	1106.	135	136¾	+4⅛	0.80
Gunma Bank 2⅞ 02	4/87	808.	184⅞	186¼	−1½	−2.11
MCA INC 5½ 02 US	9/87	69.62	129¼	130¾	0	−2.89
Minolta Camera 2¼ 94DM	2/86	1004.	67¼	68¼	0	46.81
Mitsui trust 2⅞ 01	10/86	1903.	86½	88	−0½	43.68
Next PLC 5⅞ 03 £	11/87	4.3	127⅛	129⅛	−0½	−0.66
Nippon Elec 2⅞ 00	1/85	1295.	102⅞	103⅞	+0⅛	71.00
Oki Elec Ind 3½ 99	10/84	805.	282½	289¼	−1⅛	−1.28
Omron Tateisi 2⅞ 02	4/87	1310.	167	168½	+5	−4.73
Redland 7¼ 02 £	1/87	5.4	153½	154⅞	−3⅛	−0.65
Yokohama Bank of 2⅞ 01	10/86	1014.	87½	88¾	+1⅛	24.57
W.R. Grace 6¼ 02 US	9/87	42.12	164⅞	165⅞	−0⅛	1.23
[illegible]			69¾	70¾	+1	−29.12

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

US disposals hit Northern Foods

BY LISA WOOD

Northern Foods, the dairy and food group, yesterday reported a pre-tax profit of £34.5m for the half year to September 30, a reduction of 7 per cent on the same period last year.

Northern, which has been making a strategic withdrawal fom the US, attributed the fall to disposals in North America, including the sale of Keystone Foods, the McNugget maker for McDonalds last December.

North American operations, including Northern Fine Foods in Toronto, contributed £1.6m compared with £6.2m in the same period last year, which reduced pre-tax profits by £4.6m and sales by £244.8m. Group turnover at £505.2m was down by 39 per cent on that of last year.

Earnings per share were 10.34p compared with 10.75p last year. The interim dividend at 4.25p is unchanged.

Northern, a major supplier of prepared, chilled, convenience foods to retailers including Marks and Spencer, is continuing its rationalisation of businesses in North America. This will help reduce gearing, at a seasonal peak of 12.1 per cent, to a negligible amount by the end of the financial year.

Mr Chris Haskins, chairman of Northern announced yesterday that he had completed the sale of another US business, Flagship Cleaning Services for $20m to Nuclean Inc, a US corporation. It is also understood that the group's Haverpride Farms poultry business in the US will be sold by the end of the financial year.

The UK businesses, including Northern Dairies, Pork Farms and Fox's Biscuits, contributed a pre-tax profit of £32.9m, compared with £30.9m last year with operating margins very slightly up to 6.6 per cent (6.5 per cent).

This year the group's UK businesses were re-structured into four new operating groups: dairy, convenience foods, meat and groceries

The dairy group, on sales of £221.7m (£209.8m) contributed an operating profit of £16.5m (14.6m) with the profit increase attributed to rationalisation of recent acquisitions and a wider application of franchising to milk rounds.

The Convenience Foods group had a reduction in sales to £96.8m (£101.5m) because of disposals and rationalisations with the operating profit growth,at £5.7m (£4.9m), attributed to the growth of recipe dishes, dairy desserts and flans, a 16.3 per cent improvement in operating profits. The meat group, which include Bowyers showed a downturn in sales and profits with the fall in operating profit, at £6m (£7.5m), caused by re-organisation costs and problems in the van selling of meat.

The growth in profit at the grocery group, at £4.9m (£4m) reflected a full six months contribution from Bachelors in Ireland.

Eurotunnel shares may open at big discount

By Richard Tomkins

SHARES IN Eurotunnel, the Anglo-French group building the Channel Tunnel, are expected to open at a sharp discount to the 350p offer price when dealings begin on the London and Paris stock markets this morning.

This follows the poor response to the company's £770m share offering last month which left up to 20 per cent of the stock in the hands of the underwriters on both sides of the Channel.

Private investors seem likely to hold on to their shares because many bought them for the travel perks they carry. But selling pressure is likely to emerge from three other areas.

One is the underwriters themselves, only some of whom will be prepared to become long-term Eurotunnel investors. Another is the possible flowback from the overseas placees, who took £63m worth of shares. But the biggest sell-off could come from investors who took part in last year's private placing of Eurotunnel shares, known as Equity 2.

Many Equity 2 shareholders in the UK only took up stock in Eurotunnel because they were under pressure to do so from the Bank of England. They will be looking for an early get-out, and since they only paid an effective 240p for their shares, they can afford to sell at a substantial discount to the Equity 3 price.

Prospects for the after-market have been further depressed by the likelihood that Eurotunnel's shares will be excluded from the main UK stock market indices, so ruling out the need for index-linked funds to buy into the stock.

Eurotunnel's shares do not qualify for inclusion in the FT-Actuaries All-Share index because they do not yet pay dividends. If an exception is made and they are later included, it will not be until at least January 1988.

Inclusion in the FT-SE 100 index is dependent primarily on market capitalisation. Eurotunnel's value at the offer price is £1.16bn, but it seems likely that this figure will be halved by a ruling that only its UK shares will be allowed to count. The opening discount will almost certainly ensure that the UK capitalisation is too small to rank among the top 100.

Eurotunnel also seems destined to be qualified as a beta stock in the London market because it has been unable to muster the 10 market makers necessary to qualify as an alpha. This means that its trading volume and last dealing price will not be displayed on SEAQ, the Stock Exchange's automated quotation system.

US acquisition helps Smith & Nephew to approach £75m

BY STEVEN BUTLER

Smith & Nephew Associated Companies, medical and healthcare product group, continued its strong growth record through the third quarter, yesterday reporting a 29 per cent gain in pre-tax profits to £74.9m in the 40 weeks to October 10.

Sales for the company, which has brands including Nivea and Elastoplast, rose by 20 per cent to £418.5m and would have increased by 28 per cent without the effect of currrency movements.

The results were boosted by the inclusion of Richards Medical Company, the US subsidiary acquired in October 1986, while Smith & Nephew Anchor, sold in early 1987, made only a partial contribution to the 1987 results.

Earnings per share rose by 19 per cent to 5.6p, continuing a record of steady rises after the issue of shares in connection with the Richards Medical acquisition. Shares in issue reached 951m, up from 829m in the previous year.

See Lex

Hoskyns advances to £6.5m

Hoskyns Group, a computer services company that was floated on the stock market a year ago, returned profits of £6.51m pre-tax for the year to end-October, an improvement of 44 per cent over the previous year's £4.53m.

Earnings rose by 3.8p to 11.3p per 5p share and shareholders are to receive a total dividend of 2.1p via a final of 1.5p. At the time of the listing they were promised a total of 1.6p.

The directors said growth had been achieved right across the group. At the same time research and development had continued, particularly in product development.

They added that the financial and operating strength of Hoskyns was continuing to increase and, being well positioned in a sector with continuing growth rates of over 20 per cent, was capable of extending its ten year record of unbroken profits growth.

Turnover for 1986-87 improved from £67.71m to £79.02m with the UK share at £68.16m (£62.28m) and that of Europe at £9.2m (£3.88m).

● comment

Undistracted by its first year of exposure on the London stock market, Hoskyns has added a tenth year of seemingly relentless profits growth. The impetus comes from a combination of sound management and a fast-growing market in which companies are increasingly inclined to put out the running of their computer systems to third parties. Happily for Hoskyns, its turnover is heavily orientated towards the UK and Europe, and the negligible contribution to turnover from North America limits its exposure to any US recession. Meanwhile net cash is up by £1.5m to £5.8m at the year-end in spite of capital spending up from £3.7m to £6.5m, and the group continues the search for suitable acquisitions. For the current year the market is looking for another strong improvement to something approaching £8m on a slightly lower 35 per cent tax charge. But the current year p/e of 17 at 220p is well up with events: it compares with 13 for Logica and 14 for CAP.

Ben Priest midway profits reach £1.5m

Benjamin Priest Group, manufacturer of engineering products for construction and other industries, more than doubled pre-tax profits from £734,000 to £1.5m on turnover up from £16.95m to £27.8m for the six months to October 2 1987.

Earnings per 5p share increased 39 per cent to 0.99p after tax of £322,000 (£86,000). An interim dividend of 0.2p (0.125p) was declared, on the enlarged share capital following the acquisition of Lewmar in August.

Mr Christopher Walliker, chairman, said that the results for the half year reflect the continuing development of the group in which there had been significant changes in the last 12 months. Plastic Moulding Tools and Sillavan Industries had joined the group and Warne Wright Engineering and Priest Jackson Pressings had been sold.

As a result, meaningful comparisons could not be made but progress had been good. The majority of the businesses were continuing to perform satisfactorily and the directors were confident that the group would continue to strengthen in the future.

Lovell maintains progress

Y J Lovell, housebuilder and contractor, more than maintained its progress in the second six months of 1986/87 with profits, after being 22 per cent ahead at halfway, emerging 33 per cent up from £12.26m to £16.28m for the full year to September 30.

Margins, pre-tax to sales, are up from 4.6 to 5.0 per cent and earnings have increased from 14.9p (adjusted) to 20.8p. The total dividend goes up from an equivalent 4p to 5p per 25p share with a final of 3.75p (3.15p).

The directors said the current year had started well and they saw no reason why the company should not maintain the momentum of its progress through 1988.

Over the past year residential development achieved a substantial increase in profits. Partnerships successfully expanded into new areas and secured several major urban renewal projects which will provide growth and profit potential.

In other areas construction improved its performance on the whole and the recently acquired Bullock Construction also met profit expectations; plant hire produced outstanding results, Lovell America continued its progress and commercial development made a useful profit contribution.

Turnover for the year was up 21 per cent to £323.75m (£266.99m) and the trading profit was £16.18m (£12.22m). Share of associate was up from £38,000 to £100,000 and tax took £4.9m (£4.36m). Minorities show a credit of £260,000 (nil) and extraordinary items a debit of £30,000 (debit £329,000).

● comment

Y.J. Lovell did not follow through on earlier indications that it would increase the volume of housing completions, which reached 3,000 units, but that was well compensated for by an impressive rise in average prices, from £48,000 to £60,000, and this resulted in profits nicely above City expectations. Lovell also credits improved efficiency for the rise. Lovell went to some pains to stress yesterday that it was not just a London and Southeast of England company, since under 30 per cent of its activities are in that area, although it still believes the Southeast housing market will continue strongly in the current year. Forecast pre-tax profits of £20m for 1988 put the shares on a prospective p/e of nine. That is a deserved premium to the sector, but the shares are unlikey to show much life in the short run unless the market turns on its heels.

Walter Alexander advances £2.5m

A STRONG recovery in coachbuilding and record demand from its filtration division were reflected in a 24 per cent increase from £2m to £2.49m in pre-tax profits of **Walter Alexander** for the six months to the end of September. The profit included gains on sales of listed and unlisted investments of £492,000 against £507,000.

Following an increase from 5p to 5.8p in earnings, the interim dividend is raised 20 per cent to 1.8p per 10p ordinary share. Turnover in the period was up from £29.24m to £48.81m; associated companies brought in £66,000 (£18,000) while tax took £898,000 (£18,000).

Minority interests showed a credit of £6,000 (£66,000 debit) and there was an extraordinary item of £360,000 (nil) reflecting the cost of the introduction for a full listing in September. The company had previously dealt on the over-the -counter market since 1976.

Commenting on the group's other areas of operations, Mr Ronald Alexander, chairman , said turnover of the Home Products division had been included for the first time but profits, less financing costs were not significantly different from those included under associates' profits last year because of the second half bias of the profits of that division.

The DIY distribution division produced a similar result to the previous year but the liquid fuel distribution division's profits were adversely affected by the mild weather and delays in the reorganisation of the division's operations in northern England.

Mr Alexander said that order books in all three of the company's manufacturing divisions were at a high level and he looked forward with confidence to being able to report a satisfactory result for the full year.

Albion hit by start-up costs

Albion, Belfast-based clothing manufacturer, reported profits down 18 per cent from £467,000 to £382,000 on turnover up from £7.18m to £8.04m for the year to September 30 1987.

The directors said that profits had been affected by start-up costs in the company's new subsidiary, Copeland Clothes. Trading within the parent company remained sound and it was anticipated that Copeland would make a positive contribution to group results.

Earnings per 20p share declined from 10p to 7.3p but the proposed final dividend is increased to 1.2p (1p) making 2p (1.8p) for the year. Tax amounted to £145,000 (£92,000) and minorities brought in a credit of £36,000 (nil). Extraordinary income rose to £72,000 (£23,000).

Compco held back at midway

A combination of higher interest charges and administration expenses left pre-tax profits of **Compco Holdings,** property investor and developer, down from £360,000 to £312,000 for the six months to September 25.

Net rental income was up from £426,000 to £540,000 and interest receivable advanced from £2.3m to £3.3m. Management fees receivable improved from £13,000 to £17,000 but interest payable increased from £26,000 to £129,000, administration expenses were up from £64,000 to £99,000 and directors emoluments were higher at £43,000 (£32,000).

After tax of £112,000 (£129,000) net profits were down from £231,000 to £200,000 for earnings of 9.68p (11.30p). The company makes no interim dividend payments.

Kalamazoo profit

Kalamazoo expects to make a modest pre-tax profit in the six months to January 31, Mr Tony Garnier, chairman, told the annual meeting yesterday. The business services group lost £576,000 in the comparable half last year.

Yellowhammer rises to £0.9m

Yellowhammer, an expanding advertising and marketing services group, increased its profits from £713,000 to £905,000 pre-tax in the six months to end-September and its earnings by 1.2p to 5.5p per 5p share.

Billings for the period expanded from £19.4m to £22.55m. Tax accounted for £334,000 (£266,000)

The directors believed that the group, which is moving to larger premises just before Christmas, was now in a strong position

The interim dividend is raised to 0.75p (0.6p).

Fine Art Developments pushes up 13% to £3.5m

Fine Art Developments, Staffordshire-based greetings card publisher which in September paid £2.6m for a horticultural produce business from Geest, posted a 13 per cent rise in taxable profits on turnover up a similar percentage in the six months to the end of September.

Profits jumped from £3.05m to £3.45m and turnover from £66.63m to £75.48m. The directors declared an interim dividend of 1.8p (1.5p) to be paid from earnings per 5p ordinary share of 3.025p (2.933p) which worked through after tax of £1.21m (£878,000).

Mr Donald Barnes, chairman, said that during the period the group had continued with its substantial investment programme to improve its manufacturing capability. Demand for group product both in mail order and greetings cards had been good and in consequence a substantial commitment to larger stocks to service higher volumes of sales in the second half had been made.

He said that the company's new enterprise, Home Farm Hampers, would achieve profits earlier than expected.

Baggeridge Brick pushes ahead to £4.4m

Baggeridge Brick, West Midlands-based brick manufacturer, almost doubled taxable profits from £2.21m to £4.36m on turnover ahead from £10.64m at £16.99m in the year to September 30.

The directors proposed a final dividend of 2.5p making a total of 3.25p (1.75p) for the year. After tax of £1.51m (£709,712) earnings per 25p share jumped from 7.51p to 14.22p.

Mr Peter Ward, chairman, said that the current year should prove to be an exciting one for the company. The additions to the product range, together with the increase in production capacity, would give Baggeridge the opportunity to increase further its profits.

The company was in the best possible shape, he said, and greatly encouraged by the unprecedented level of forward orders.

He added that investment was being made in a new kiln at Kingsbury which would produce an increased range of bricks of special quality.

Miller buy-out from Inchcape

BY NICK BUNKER

EXECUTIVES of **Graham Miller Group,** London-based loss adjuster, have won their independence from Inchcape, theinternational trading company, by negotiating a management buy-out.

The deal was completed late on Tuesday night, after nearly 18 months of on-and-off talks between Graham Miller's senior executives and the Inchcape group.

Details of the price paid were not disclosed, but it was based on the business's discounted net asset value rather than a multiple of earnings. Finance for the buy-out has come from its executives, the Bank of Scotland and 3i, the venture capital group.

Mr Richard Youens, a Graham Miller director, said the buy-out talks began because he and his colleagues suspected that Inchcape was planning to sell the business.

News of the buy-out marks the completion of a gradual process of dismemberment of a British-based loss adjusting empire created in the early 1950s by Mr Graham Miller.

There are now four entirely separate loss adjusting groups

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding div	Total for year	Total last year
Albion ......fin	1.2	-	1	2	1.8
Alexander (Walt) ..int	1.8	Apr 6	1.5	-	4.25
Avon Rubber ......fin	7	Feb 16	4	10†	6.5
Baggeridge Brick ...fin	2.5	Feb 10	1.25*	3.25	1.75*
BTP ......int	2.25†	-	2	-	5.5
Bulmer (HP) ......int	2.56	-	2.34	-	5.77
Carr's Milling ......fin	5.5	Jan 29	4.75	7.25	6.5
Charter Cons ......int	4.25	Jan 7	4	-	13
Coated Elect§ ......int	1.4†	-	1.3	-	3.9
Cont Stationery ....int	0.75	-	0.5	-	2
Fine Art ......int	1.8	-	1.5	-	5.5
Havelock Europa ..int	2.6	Jan 29	2	-	6.5
Holmes Marchant .fin	2.7†	-	1.9	4.45	3.15*
Hoskyns ......fin	1.5	-	-	2.1	-
Lovell (Y J) ......fin	3.75	Apr 1	3.15*	5	4*
M&G Second ......int	7.95	-	7.1	-	13.55
Northern Foods ....int	4.25†	Feb 19	4.25	-	9
Priest (Ben) ......int	0.2†	Feb 1	0.13	-	0.5
Samuelson ......int	nil	-	0.8	-	2.4
Stakis ......fin	1.14	-	0.95	1.68†	1.4
Tex Holdings ......int	1.75†	Feb 3	1.5	-	5
Tinsley (Eliza)§ ....int	1.15	-	1	-	3.2
Thermal Scient§ ...int	1.2	-	1	-	3.25
Utd Scientific ......fin	4.2	Apr 6	3.8	6.6	6
Yellowhammer ......int	0.75	Jan 30	0.6	-	2.1

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ♠Unquoted stock. ♥Third market.

Poor summer hits H.P.Bulmer

BY NIKKI TAIT

A DAMP summer and the need to raise marketing spend in the face of further declines in the cider market left trading profits at Hereford-based H. P. Bulmer almost 9.5 per cent lower at £8.37m in the six months to October 23.

However, a switch from a £852,000 exceptional debit to a £605,000 credit, coupled with lower interest charges meant that the pre-tax figure increased by 9 per cent to £7.5m. Group turnover was £3.1m higher at £95m. Earnings per share increased by 5.4 per cent to 7.7p, and the interim dividend is raised 9 per cent to 2.56p. The shares eased 5p to 139p.

The poor summer weather and the higher marketing spend - estimated to be an additional £2m in the full year - impacted strongly on the main cider and soft drinks division, where trading profits (before exceptional items) slipped 18 per cent to £6.3m on static sales of £46.1m. The company reckoned that the cider market itself declined by around 4 per cent in the first half, and added that its own market share nosed back.

The pectin division saw a £368,000 drop in trading profits to £815,000 - partly due to the phasing of a Russian order last time round and partly due to problem with the Brazilian joint venture. The latter, according to Bulmer, should do better in the second half.

Happier news came from the wines, spirits and other drinks division where trading profits rose strongly from £868,000 to £1.24m. Sales were up 27 per cent to £28.96m.

The figures benefited from a £600,000 exceptional surplus - redundancy costs and cententery year celebrations offset by a £1.2m profit on asset disposals. The interest charge was reduced from £1.18m to £875,000. For the year as a whole, Bulmer reckoned that exceptional items should be broadly neutral.

Not included in the divisional figures, but knocking £570,000 off the pre-tax total were the losses at Red Cheek, the company's US apple juice company - which has now been sold to Cadbury-Schweppes.

● comment

Bulmer can scarcely be blamed for the familiar problems of the cider industry generally, although any inroads made by national brewers into the regionals' base tends to squeeze its market share, as does competition from the likes of Greenall Whitley's own Symonds brand. The additional downside must be that higher levels of marketing spend become a permanent feature just to enable the company to stand still. That said, Bulmer should begin to see the benefits of tackling its own particular headaches. The elimination of the Red Cheek losses/debts is good news - even if the full year figures suffer around £2m-worth of extraordinary costs to cover the extrication - and the cider-maker should end the year with a net cash balance. That, in turn, could facilitate expansion on the more successful drinks side. Moreover, the redundancy costs are at last dwindling, although there will be some further charge in the second half. Analysts were holding forecasts to around £15m yesterday, leaving the shares on a prospective pe of under 10. They have performed broadly in line with the market (and the drinks sector) this year; it is hard to see much fizz returning next.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Booth Industries, British Building and Engineering Appliances, Dowty, Great Universal Stores, Greycoat, Phoenix Timber, Pilkington, Smith New Court, Stewart and Wight, Syltone, Thorn EMI, Eliza Tinsley, Wagon Industrial.

Finals- Associated British Engineering, Bradstock, Flexello, Granger Trust, Irish Distillers, Melville Street Investments, Morceau, Sidlaw, Westland, Whessoe.

FUTURE DATES

Interims-	
Firth (G.M.)	Dec 17
Fitch Lovell	Jan 28
Forminster	Dec 18
Gibbs Mew	Dec 16
Peel Holdings	Dec 21
Finals-	
Acatos and Hutcheson	Dec 16
Guinness Peat	Dec 15
Neutronics Technology	Jan 14

Enlarged BTP hits £4.3m at midterm

BTP, the specialist chemical and industrial group enlarged earlier this year via the £31.8m acquisition of Barrow Hepburn, yesterday reported a 58 per cent rise in profits to £4.31m pre-tax for the six months to end-September and a 0.86p improvement in earnings to 5.34p per 10p share.

The increases reflected the inclusion of Barrow Hepburn and growth of the core businesses.

The second half had started well. The interim dividend is lifted to 2.25p (2p).

First half turnover reached £49.74m (£29.74m). Interest charges rose to £673,000 (£269,000) and tax to £1.19m (£955,000).

Rationalisation of Barrow Hepburn was taken below the line as an extraordinary charge of £464,000.

The group was formerly known as British Tar Products.

Rationalisation lifts Avon Rubber

BY HEATHER FARMBROUGH

RATIONALISATION benefits are starting to come through at **Avon Rubber**, manufacturer of elastomeric products and tyres, which upped pre-tax profits by 88 per cent to £11.4m in the 53 weeks to end October.

"Improvements from efficiency gave us an advantage of £500,000," said Mr Tony Mitchard, chief executive. "This year, we expect £3m."

There was an extraordinary charge of £4.26m (£1.83m), which comprised £5.2m of rationalisation costs at Avon Tyres and £1.2m at Avon Inflatables, less tax relief.

Rationalisation costs at the Bradford on Avon factory over the present financial year were expected to amount to £1.5m and would be dealt with as an extraordinary item.

Earnings per share increased to 47.7p (37.8p) after a higher tax charge of £3.5m (£583,000).

The improved outlook for the company was also reflected in a 54 per cent dividend increase. The board is proposing a final dividend of 7p, giving a total of 10p (6.5p) for the year.

Tyre profits rose by about 41 per cent on a similar increase in turnover, while industrial polymer profits increased by about 50 per cent on turnover 27 per cent higher.

Mr Mitchard said that supply and demand in the European tyre market was in much better balance and that the tyre replacement market was very healthy. About 60 per cent of Avon's tyre profits come from the manufacture and sale of specialist high-performance tyres for niche markets.

Avon expected significant growth over the year from its French joint ventures.

Efficiency programmes at the factories at Melksham and Chippenham were almost complete. At Melksham, 500 employees have opted for redundancy, 250 less than the company anticipated.

● comment

A 50p leap in Avon's share price was a little over the top, even by 1987 market standards, given results were in line with expectations. But the company's optimism and evident progress suggests profits for 1987/8 of £14.5m which values the shares on an inexpensive prospective p/e of 7½. Capitalised at just under £100m, Avon is doubtless aware that it has become big enough to attract unwelcome predators. This would hardly be a gracious reward for the efforts of Mr Mitchard since he became chief executive in February 1986. It does, however, mean that the company will be looking towards future generous dividend payments - albeit on a lower rate of increase - and that the downside for the shares is limited.

USH triples profits to £11m

United Scientific Holdings, the defence equipment group whose recent rights issue attracted negligible support from shareholders, yesterday revealed pre-tax profits more than trebled to £11.12m in the year to end-September.

The outcome was achieved on a modest increase in turnover from £117.89m to £120.24m, and after reduced interest charge of £1.01m (£2.93m).

Sir Frank Cooper, chairman, said that the group was well placed to move forward. The increasingly competitive nature of the defence market presented opportunities to competitive companies such as United Scientific, and contrary to sceptism in some quarters, there was business to be won in all the group's markets,he added.

He also stated that with a strong balance sheet and solid order book the group was confident that further growth would be achieved and new prospects would develop next year.

After tax of £2,46m (£2,37m), minorities of £860,000 (£455,000), earnings per share worked through at 14.4p against 0.7p last time; there is an extraordinary debit of £2.3m aginst a credit of £767,000.The final dividend is lifted to 4.2p making 6.6p (6p) for the year.

● comment

Despite the arms talks, the world still spends vast sums on defence and USH's non-nuclear target market is unlikely to be affected by the Reagan-Gorbachev agreement. These figures reflect a return to respectability after the problems in the US; the turnround in North America was responsible for around $7m (£3.9m) of this improvement.

Further growth should come this year from the disappearance of Rollei losses - £750,000 last year plus a £6.5m loan write-off below the line, which was offset by profts from the Singapore float. In addition, the Fernau and Invertron acquisitions should add over £1m between them. The rights issue was well-timed, from the company's point of view if not from the underwriters, and with a strong balance sheet and orders up more than 50 per cent from last year, the medium-term prospects look healthy. Assuming £18.5m this year, the shares are on a prospective p/e of 10.

Havelock up 30% and more growth seen

Havelock Europa, shopfitting and retail store design group, raised its turnover by 16 per cent and pre-tax profit by 30 per cent in the half year ended October 16 1987.

And the group was particularly well placed for further progress in the second half, the directors intimated. The year 1986-87 produced £3.16m pre-tax.

In the half year turnover came to £17m (£14.69m) and profit to £1.72m (£1.32m). With earnings of 9.16p (7.01p), the interim dividend is raised to 2.6p (2p). From October 1 the company moved from the USM to a full listing, and extraordinary costs relating thereto were £82,000.

Value of new orders booked this year showed a notable increase, and included some large contracts for the banking, travel and leisure industries, indicating the continuing broadening of the group's base.

Expanding Holmes & Marchant 28% ahead

MARKETING consultant group Holmes & Marchant yesterday announced a profit rise of 28 per cent for the year ended September 30 1987, and another acquisition for a maximum £1.55m.

The company being acquired is Happy Atom, a marketing and design undertaking which will be merged with Blitz Design & Graphics.

Consideration will be met as to £400,000 on completion (of which £250,000 is in shares), £150,000 in January 1989, and three further payments totalling a maximum £1m dependent on turnover.

Turnover of the existing group rose 29 per cent to £19.39m in 1986-87, while the profit worked through at £2.95m (£2.3m). Earnings were 19.1p (13.8p) and the final dividend is 2.7p for a total of 4.45p (3.15p).

Biggs Communications had fitted well into the group; with all constituent companies exceeding targets a further £1m tranche of the purchase consideration is payable.

Trading in the opening two months of the current year was in line with budget and recent new business gains gave the group optimism for a satisfactory outcome.

Carr's well ahead

A second half push by Carr's Milling Industries led to a pre-tax profit of £2.09m for the year ended August 29 1987. That exceeded expectations and compared with an adjusted £1.46m.

Turnover rose to £67m (£65.8m). The first quarter of the current year had been satisfactory, and prospects were encouraging, the directors reported.

They are lifting the 1986-87 dividend from 6.5p to 7.25p, the final being 5.5p. Earnings came to 29.6p (18.1p).

Tex up to £0.45m

Tex Holdings, manufacturer and supplier of abrasives and plastics, increased taxable profits from £279,000 to £452,000 in the six months to September 30, thanks largely to the recovery of BSP and an increase in sales by Tex Abrasives. Turnover jumped from £2.95m to £4.58m.

The interim dividend is raised to 1.75p (1.5p). After tax of £158,000 (£98,000) earnings per 10p share moved up from 3.8p to 6.4p.

Stakis at £19m as revaluation boosts net assets 25%

BY CLAY HARRIS

Stakis, Scottish leisure, property and financial services group, increased pre-tax profit by 24 per cent to £19.1m in the year to September 27.

The first property revaluation for four years, meanwhile, raised net assets per share to 96p, nearly 25 per cent above yesterday's market price.

The comparable pre-tax figure of £15.4m included a trading profit of £514,000 from the wines and spirits division sold in March 1986.

Group turnover of £114.5m was nearly 21 per cent higher than the 1985-86 figure excluding wines and spirits.

Results of Robert Wigram, the London stockbroker bought two weeks before the year-end, were not material, the company said, and thus excluded.

Tax took £4.28m (£4.25m) as the charge fell from 27.6 per cent to 22.4 per cent. This reflected Stakis's emphasis on more tax-effective expansion through hotel extensions and addition of leisure facilities and helped to boost earnings per share by 31 per cent to 6.08p (4.63p).

A fall in attributable profit to £14.5m (£22.3m) reflected the absence of last year's extraordinary credit on the disposal.

The final dividend of 1.14p (0.95p) will make a total of 1.68p (1.4p).

● comment

October took the wind out of takeover speculation, and such would-be suitors as Scottish & Newcastle and Pleasurama had already found more willing targets elsewhere. Like Queens Moat Houses, another occasionally suggested predator, Stakis has only one London hotel and is thus well-placed to weather a downturn in US visitors, as it did after Chernobyl. The Glasgow garden festival next summer will help to keep Scottish hotels full.

New uncertainty about tourism will not help morale in the casino division after the recovery from the 1985-86 fall. A more serious question concerns financial services, where margins fell even before the crash, and Wigram is not expected to make much of an initial contribution.

The property side should benefit from selling the first slice of Spring Hill Farm, near Glasgow, for residential development.

Group profits will get a £1.5m boost from rent savings arising from the year-end purchase of eight hotel freeholds from Norwich Union, and the pre-tax total should exceed £23m. With the tax charge expected to rebound to 25 per cent, earnings growth would slow to 11 per cent. On a prospective p/e just over 11, the shares are conservatively priced considering the asset backing.

DIVISIONAL TRADING RESULTS FROM CONTINUING OPERATIONS (£m)

	Turnover	% rise	Profit	% rise
Hotels & inns	74.2	12	11.6	13
Casinos	23.1	13	4.4	35
Property	10.1	216	2.1	44
Finance	7.1	40	2.3	11

Thermal Scientific rises 63%

BY MARTIN DICKSON

Thermal Scientific, which specialises in the manufacture of high technology furnaces, scientific instruments and polymer equipment, yesterday announced interim pre-tax profits up 63 per cent to £3.63m (£2.2m). However, the company has been expanding rapidly by acquisition and earnings per share were up by a more modest 12 per cent, to 7.3p (6.5p)

Thermal, which joined the USM in 1983, also confirmed that it is shortly moving up to the main stock market.

Profits for the six months to September 30 were produced on turnover up 67 per cent to £24.8m (£14.9m). The tax charge was £1.34m (£800,000) ,while the dividend rises 20 per cent to 1.2p (1p)

The company, which has about half its turnover in the US, said that on both sides of the Atlantic its two main business areas - thermal and polymer - had continued to show good organic growth, both in home and overseas markets.

However, the results had been affected by delays and development cost over-runs for a major new product at Sharetree, which makes screening systems for electronic components. There had also been pressure on margins at Uniplex, an American manufacturer of plastic profiles, because of new competition and rising raw material costs.

The profit figure was also depressed by £200,000 because of the adverse dollar exchange rate.

But the company said its largest and most recent acquisition, the American company Vacuum Industries, was integrating well and and contributing in line with expectations at the time of the deal.

● comment

These figures took a bit of the shine off Thermal's high- tech, high-growth image, since stripping out £1.5m of profits from acquisitions leaves organic growth flat. On the plus side, the difficulties at Sharetree (which suffered a £400,000 swing from profit to loss) seem to be behind it, while Uniplex is not a core business and could be sold if there was no improvement in margins. Across the rest of the business, the company claims continuing organic growth of 15 to 20 per cent,no signs yet of a recessionary impact on the order book (higher now that at this time last year) and a good new product pipeline. But with so much of its operations in the US, the declining dollar will hit the full-year figures (despite profits hedging at $1.63), though it might aid exports from America longer term. Analysts now expect full-year profits of about £8m, compared with £9.2m a few months ago, putting the shares on a prospective p/e of about 10.5, which seems about right.

Appointments

Reorganisation at Vauxhall Motors

Mr Peter M. Johnson has been appointed director - reliability and supplier development, VAUXHALL MOTORS. He was director - quality and reliability. His appointment is seen as a key step in a major reorganisation of Vauxhall's operational activities, aimed at integrating related functions. The group now established under Mr Johnson (who joined the company as a student in 1946) enbraces the purchasing, traffic, product engineering liaison, reliability and supplier quality assurance acitivities.

*

COSTAIN PETROCARBON, Manchester, has appointed **Mr Neville Roscoe** as a senior project manager in its process engineering division.

*

Mr Russell Mishcon (commercial property), formerly senior partner of Russell Mishcon Solicitors, and **Mr Adrian Shipwright** (international taxation), formerly of Denton Hall Burgin & Warrens, have joined the partnership of S.J. BERSIN & CO.

*

Mr Robert Chambers has been appointed to the newly-created post of partnership director at RICHARDS BUTLER. He joins from the Goldetz Group, where he was group finance director, and managing director of the commodity broking subsidiary Lonconex Holdings.

*

Mr James D. Tibbles, previously with Heron Property Corporation, has joined ROCKFORT LAND as senior retail development manager.

*

Mr Peter J. Savage has been appointed chemicals director designate by HARRISONS & CROSFIELD. He will succeed **Mr Brian Joyce**, who is retiring on December 31. Mr Savage joins from Rohm & Haas, where he was director in charge of the group's European plastics business.

*

The HAISTE GROUP has appointed **Mr Ian Elliott** as director responsible for strucural engineering in the northern region. He was a regional director with Norwest Holst.

*

Mr David Tribe has been appointed managing director of power industry products at HAYWARD TYLER, Luton. He was with Peerless Pump, now integrated with Hayward Tyler, a Sterling company.

*

CAKEBREAD ROBEY & CO., has appointed as non-executive directors **Mr C.I. Bostock, Mr M. Earle** and **Mr W. Smith.**

*

Mr Alistair Lawton has been re-appointed a member of DOVER HARBOUR BOARD for a further three years. He will continue as deputy chairman.

*

Mr P.J. Carlier has been appointed a director of THOS.R.MILLER (ENERGY INSURANCE SERVICES).

*

SMITH & WESSON CORPORATION, which was acquired by F.H.Tomkins in June, has appointed **Mr Steve Melvin** as president. He takes over from **Mr Bob Muddimer**, a divisional director of Tomkins, who has been president since the acquisition. Mr Melvin joins from United Technologies where he has been president of Elliott Turbomachinery Inc., and of the Pratt & Whitney manufacturing division.

*

Mr Gerry Murray has been appointed chief executive of EMAP BUSINESS PUBLISHING from December 14. He was managing director of EMAP's Business and Computer Publications.

*

THE WATES FOUNDATION has appointed **Sir Alan Goodison** as director from January 1 on the retirement of **Sir John Moreton.** Sir Alan recently retired from the Diplomatic Service. His last post was ambassador in Dublin.

*

Mr Alan R. Barnard has been appointed managing director of GEISTLICH SONS, Chester, following the retirement of **Mr George Jackson.** Mr Barnard joins from Lastonet Products where he was managing director.

*

Mr David Jamieson has been appointed managing director of INDUSTRIAL MARKET RESEARCH, part of AGB. Also becoming directors are **Mr Mike Turner** and **Ms Diana Brown.**

*

Dr John Bridge becomes chief executive of the NORTHERN DEVELOPMENT COMPANY from the end of Feberuary. He is chief executive of Yorkshire & Humberside Development Association.

UK ECONOMIC INDICATORS

ECONOMIC ACTIVITY-Indices of industrial production, manufacturing output (1980=100); engineering orders (1980=100); retail sales volume (1980=100); retail sales value (1980=100); registered unemployment (excluding school leavers) and unfilled vacancies (000s). All seasonally adjusted.

	Indl. prod.	Mfg. output	Eng. order	Retail vol.	Retail value	Unemployed	Vacs.
1986							
2nd qtr.	109.7	104.0	97	121.3	154.0	3,293	175.6
3rd qtr.	110.5	105.0	96	123.7	158.7	3,292	209.2
4th qtr.	111.1	107.4	96	126.5	194.3	3,141	213.0
1987							
1st qtr.	111.9	107.4	95	125.4	157.0	3,073	210.4
2nd qtr	112.5	109.4	93	123.3	166.0	2,965	225.1
3rd qtr	114.3	111.4	92	131.8	171.8	2,827	241.3
April	113.5	109.0	94	130.0	169.0	3,018	217.7
May	113.1	109.5	93	125.4	161.3	2,952	230.5
June	111.9	109.8	93	128.4	167.3	2,925	233.7
July	114.2	111.1	92	131.2	173.7	2,876	235.2
Aug.	115.0	111.8	92	132.5	171.0	2,829	236.9
Sept.	113.3	111.2	92	131.8	171.0	2,773	246.6
Oct.				133.0	180.8	2,714	261.4

OUTPUT-By market sector; consumer goods, investment goods, intermediate goods (materials and fuels); engineering output, metal manufacture, textiles, leather and clothing (1980=100); housing starts (000s, monthly average).

	Cnsmer goods	Invest goods	Intmd. goods	Eng. output	Metal mnfg.	Textile etc.	Housg. starts*
1986							
1st qtr.	103.9	100.8	114.3	101.1	109.1	103.1	14.6
2nd qtr.	105.3	101.1	115.7	102.6	119.6	104.1	19.5
3rd qtr.	106.4	101.2	117.5	103.3	108.5	103.2	19.4
4th qtr.	106.5	103.3	116.0	105.4	115.0	104.8	15.5
1987							
1st qtr.	108.1	103.2	117.8	105.2	113.8	101.9	17.4
2nd qtr	111.1	102.0	117.5	105.8	119.1	105.3	19.6
3rd qtr	113.0	104.9	119.3	106.1	120.6	107.9	20.2
March	107.9	104.7	118.6	107.0	115.9	101.0	20.8
April	110.7	102.8	117.8	105.0	115.0	106.0	18.1
May	111.6	102.6	118.7	106.0	119.0	106.0	20.6
June	111.1	103.6	116.1	106.0	123.0	106.0	20.2
July	112.8	104.2	119.4	107.0	120.0	108.0	20.9
Aug.	113.6	104.8	120.3	108.0	124.0	109.0	17.8
Sept.	112.6	105.7	118.1	109.0	118.0	107.0	21.8
Oct.							17.4

EXTERNAL TRADE-Indices of export and import volume (1980=100); visible balance; current balance (£m); oil balance (£m); terms of trade (1980=100); official reserves.

	Export volume	Import volume	Visible balance	Current balance	Oil balance	Terms trade	Reserve US$bn
1986							
2nd qtr.	121.6	129.1	-1,608	+146	+765	102.5	19.20
3rd qtr.	122.6	139.0	-2,891	-910	+621	103.2	22.43
4th qtr.	130.5	144.0	-2,725	-960	+785	100.9	21.92
1987							
1st qtr.	130.0	133.2	-1,135	+672	+1,164	100.5	27.04
2nd qtr	128.3	140.7	-2,382	-174	+1,083	103.7	34.36
3rd qtr	130.7	151.0	-3,048	-1293	+942	103.8	34.81
April	131.4	138.6	-527	+203	+423	102.8	29.81
May	124.2	144.8	-1,107	-978	+365	103.8	34.68
June	123.4	139.1	-748	-19	+245	104.4	34.36
July	130.9	147.8	-825	-325	+284	103.1	34.91
Aug.	126.6	155.1	-1,507	-907	+372	103.9	34.36
Sept.	134.6	150.1	-617	-17	+286	104.0	34.81
Oct.	132.4	149.1	-683	-282	+386	104.0	41.40
Nov.							41.28

FINANCIAL-Money supply M0, M1 and M3 (three months' growth at annual rate); bank sterling lending to private sector; building societies' net inflow; consumer credit†; all seasonally adjusted. Clearing Bank base rate (end period).

	M0 %	M1 %	M3 %	Bank lending £m	BS inflow £m	Cnsmer. credit† £m	Base rate %
1986							
2nd qtr.	3.1	25.9	27.3	+6,455	1,433	+346	10.00
3rd qtr.	5.9	30.3	15.4	+6,995	168	+792	10.00
4th qtr.	7.5	16.3	14.1	+10,516	2,814	+444	11.00
1987							
1st qtr.	1.2	20.6	20.2	+6,733	1,465	+862	10.00
2nd qtr	3.3	29.7	29.3	+8,554	1,894	+1,083	9.00
3rd qtr	8.1	25.2	21.7	+11,445	1,211	+849	10.00
April	0.1	20.9	33.6	+2,202	727	+410	9.50
May	5.5	37.6	32.8	+2,502	521	+294	9.00
June	4.5	30.8	21.9	+3,979	556	+329	9.00
July	7.7	34.5	24.2	+4,530	347	+241	9.00
Aug.	7.1	22.5	21.0	+2,653	687	+206	10.00
Sept.	9.5	19.5	21.4	+4,330	197	+412	10.00
Oct.	6.9	36.0	27.9	+2,894	812	+412	9.50
Nov.							9.00

INFLATION-Indices of earnings (Jan 1980=100); basic materials and fuels; wholesale prices of manufactured products (1980=100); retail prices and food prices (Jan 1987=100); Reuters commodity index (Sept 1931 =100); trade weighted value of sterling (1975=100)

	Earnings*	Basic matls.*	Whsale. mnfg*	RPI*	Foods	Reuters* cmdty.	Sterling
1986							
1st qtr.	179.1	132.4	143.3	96.5	96.9	1,825	75.1
2nd qtr.	184.0	125.8	145.7	97.8	96.7	1,714	76.1
3rd qtr.	187.4	120.8	146.3	97.9	96.9	1,464	71.9
4th qtr.	191.0	127.4	147.4	99.1	98.3	1,606	68.2
1987							
1st qtr.	192.0	129.8	149.3	100.2	100.5	1,580	68.9
2nd qtr	196.0	128.7	150.9	101.9	101.5	1,598	72.8
3rd qtr	202.1	131.0	151.6	102.1	100.5	1,647	72.7
April	196.0	128.4	150.5	101.8	101.6	1,554	72.4
May	198.1	128.0	151.0	101.9	102.2	1,612	73.3
June	200.0	129.7	151.1	101.9	101.6	1,629	72.6
July	203.1	130.5	151.3	101.8	100.4	1,632	72.8
Aug.	201.6	131.3	151.5	102.1	100.7	1,655	72.3
Sept.	201.6	131.1	151.9	102.4	100.4	1,653	73.1
Oct.		130.6	152.7	102.9	101.1	1,662	73.6
Nov.						1,682	75.4

*Not seasonally adjusted
†Net changes in amounts outstanding, excluding bank loans.

Bernard Matthews faces £1m profit cut

By Ralph Atkins

A SHORTFALL in turkey sales is likely to cut pre-tax profits by over £1m this year at **Bernard Matthews,** the turkey and other meat products group.

The group said yesterday that orders for whole birds had not matched expectations and, although high street prices are competitive, sales in the run up to Christmas will be lower than forecast.

The group added its business has also been affected by unexpectedly high grain prices caused by market fears about the level of the UK harvest.

However, sales could be boosted by "significant" exports of processed turkey meats under deals currently under negotiation. Deliveries would be made in the first half of next year.

"As a result of these factors there is likely to be a reduction in profit before tax for 1987 of over one million pounds compared with 1986," the company said.

Bernard Matthews' shares closed down 13p at 88p.

A fall-back in pre-tax profits would end a three-year period of continuous growth. In 1986 pre-tax profits of £15.07m were recorded compared with £12.9m in 1985.

In the first half of this year, the company announced bad weather had hit agricultural and processing operations. This led to a reduction in interim profits, announced in September, from £7.01m in the first six months to July 1986 to £6.11m in the same period this year.

Setback at Coated Electrodes

Pre-tax profits of USM-quoted **Coated Electrodes International** showed a 22 per cent decline to £825,000 on turnover of £5.87m (£5.74m) in the six months to October 3 1987.

Tax took £293,000 (£342,000), leaving earnings per 5p share of 3.7p (5.4p). The interim dividend is increased to 1.4p aginst 1.3p last time.

Comparisons have been restated to reflect July's acquisition of Sheffield Refractories.

FJC Lilley disposal

F J C Lilley, engineering and construction group, has sold the interest held by its subsidiary, Harrison Western, in a joint venture known as Homestake to Summit for $2m (£1.11m). It also expects to dispose of the Johnson Brothers division of Harrison Western.

Charter Consd meets expectations with £26m

BY DAVID WALLER

DESPITE a flat trading performance, interest income and investment profits helped **Charter Consolidated,** mining, manufacturing and investment group, muster a 45 per cent increase in pre-tax profits for the six months to the end of September. At £26.1m profits were in line with City expectations.

Problems at Anderson Strathclyde, Charter's mining equipment subsidiary, confined the growth in operating profits to 3 per cent to £10.85m. Investment profits rose from £11.01m to £13.88m – boosted by Charter's share of profits from Johnson Matthey – and interest receivable was £3.87m, nearly four times interest income for the whole of 1986.

This increase in interest income was largely due to Charter's sale of its 13.8 per cent stake in Malaysia Mining Corporation in June, for £38m in total, giving rise to an extraordinary profit of a net £15.7m after tax and unrelated reorganisation costs.

After tax of £6.45m (£5.08m) and minorities of £1.45m, profit attributable to shareholders was £18.16m (£12.79m), and earnings per share jumped by 41 per cent to 17.2p. The increase in the interim dividend was more modest: from 4p to 4.25p per share.

Manufacturing profits declined in total from £16.25m to £9.55m, reflecting trading difficulties in the rail-track equipment business as well as in mining equipment. Profits from Anderson Strathclyde fell from £7.23m to £2.19m. Cape Building Products rose by 23 per cent.

The contribution from the construction businesses was £880,000 against a loss of £265,000 last year; a substantial reduction in losses at Beralt's wolfram mine in Portugal helped mining show a £1.14m turnround to profits of £746,000.

Securities trading secured a realised profit of £1.98m, after making full provision for losses incurred during the mnarket crash.

● comment

Yesterday's 13p gain in Charter Consolidated's share price to 303p reflects the fact that the company has become moderately fashionable in the post-crash environment. Charter has the qualities required of a safe, defensive investment. With no debt and net cash of £82m subsequent to the well-timed disposal of the MMC stake, erratic operations performance is now seen to be less important than the group's capacity to generate cash at the rate of £35m-£50m a year. And not only do the shares trade at a substantial discount to net assets of 437p per share (£460m in total), but they offer a prospective yield of 6½ if the final dividend is 15p a share. Assuming pre-tax profits of £55m for the full year, the shares are on a prospective p/e of under 8½.

Maxwell drops bid for Bell

BY HAIG SIMONIAN IN FRANKFURT

Maxwell Communication Corporation (MCC), the UK media group run by Mr Robert Maxwell, is dropping its bid to buy 50 per cent of Bell & Howell, the US educational publisher and manufacturer of information-storage equipment.

Mr Maxwell said that he had decided not to proceed with two major ventures in the US, one of which was Bell & Howell. Price was the reason in one case, he said, and differences over management structure in the other. However, he would not be drawn on further details.

The share price of US media groups had fallen since October's stock market crash, Mr Maxwell noted. But he felt prices still had some way to go. "We are not the Salvation Army," he added.

MCC would now pursue European ventures more vigorously, said Mr Maxwell, who was in West Germany to pave the way for the listing of MCC shares on the Frankfurt stock exchange next January.

Mr Maxwell said that he was now discussing co-operative media ventures with a variety of German groups.

"We are already in conversations with some of the most important German companies which have expressed interest in taking part in Maxwell Communication Systems," he said.

Among the likely areas of interest were international satellite broadcasting as well as well as developments in German television and radio.

Mr Maxwell also announced a list of other new ventures.

● Groups with which MCC is associated stand "a good chance" to win broadcasting licences in Spain and Portugal, where the governments are pushing ahead with plans to deregulate their state-controlled broadcasting systems.

● Another group with which MCC is associated has applied for a licence to broadcast in English and Portuguese from Macao to Hongkong and part of China.

● Mr Patrick Cox, currently deputy chairman and chief executive of Sky Channel, the UK-based satellite TV group which is majority-owned by Mr Rupert Murdoch's News International, will start working for Mr Maxwell on January 1. Mr Cox will have the task of developing programmes and scheduling for MCC's planned new European satellite TV service.

Mr Maxwell said that he had so far been approached with ideas from about 60 German companies for co-operative ventures and "three of four are very serious and very big". He also implied his company was looking for minority stakes in German media ventures.

Tinsley rises 54% to £0.45m

Eliza Tinsley, USM-quoted agricultural hardware supplier, reported pre-tax profits in the six months to September 30 showing a gain of 54 per cent from £295,000 to £454,000.

Turnover in the half year was up from £4.48m to £5.4m and the operating profit from £315,000 to £462,000. Interest payable was £8,000 (£20,000) leaving earnings per 5p share to emerge at 3.88p (2.56p).

The interim dividend is raised from 1p to 1.15p.

Continuous Stationery falls

Continuous Stationery, business forms manufacturer, reported pre-tax profits down from £334,000 to £200,000 for the six months to October 2 1987. This was mainly due to a loss on discontinued activities of £169,000 compared with a corresponding credit of £81,000.

Turnover was slightly down at £3.92m (£4.02m) and earnings per 10p share dropped to 1.67p (2.78p) after tax of £70,000 (£117,000).

Comparative figures are restated to include the results of Carwin (Business Forms) with which the group merged in March.

The directors said they were increasing the interim dividend by 50 per cent to 0.75p to reflect the increase in profits from continuing activities from £253,000 to £369,000.

If current levels of activity were maintained, the board intendes to recommend a similar increase in the final dividend.

Mr Bill Eastwood, chairman, said that following recent restructuring and elimination of loss-making activities, the group had a good balance of sales and production in its market. Current trading was buoyant and prospects were good.

Blue Circle close to Ockley Brick buy

By Mike Smith

Blue Circle, the cement company which this week launched a hostile bid for Birmid Qualcast, is believed to be close to clinching the acquisition of Ockley Brick, a manufacturer of bricks and tiles, for about £60m.

The company has agreed on a price with the anonymous Swiss consortium which owns the Surrey-based Ockley, although final details of the deal are still being discussed. An announcement is expected by the end of the year. Under the deal Blue Circle would buy Romag, the holding company which owns Ockley, for about £70m. Of this about £10m would be for Bitumin interests and cash reserves in West Germany and Austria which are also owned by Romag.

Blue Circle's real target, however, is Ockley which has been looked at by several large brick companies since it was put on to the market in the summer.

If Blue Circle succeeds in the bid, it would add Ockley to its much smaller Sittingbourne bricks subsidiary. Ockley's output of 35m bricks a year compares with Sittingbourne's 14m.

Assuming Ockley can make profits of about £4.5m this year, Blue Circle would be paying a prospective p/e of about 20.

The move confirms Blue Circle's determination to lessen its dependence on cement.

If it wins its £217m bid for Birmid Qualcast, maker of lawnmowers, boilers and gas cookers, and pays cash for Ockley, group gearing would rise to about 45 per cent from the present level of 17 per cent.

The attractions of Ockley include 200 years worth of clay reserves, more than half of which have planning consent. It also benefits from its location in the heart of the south east market.

Meggitt expansion

Meggitt Holdings, the aerospace and engineering group which clinched an £85m bid battle for Bestobell a year ago, yesterday announced a FF5,36m (£526,500) deal in France.

The British company is buying SDMI SA, a supplier of level, temperature and flow measurement equipment. Its sales for the year to end-June were FF18.71m (£1.84m) and pre-tax profits £197,000.

Asda-MFI decides against Allied Carpets disposal

BY MAGGIE URRY

Asda-MFI, the superstores group, has decided not to proceed with the sale of Allied Carpets for the forseeable future because of the recent stock market instability.

The move follows Monday's decision by retailer Next not to sell its Allens Chemist chain.

At the same time Asda-MFI announced a number of board changes and said that it will be asking shareholders for approval to change the company's name to Asda Group.

From January 1 Mr David Donne, the chairman, will retire and become a non-executive deputy chairman. Mr John Hardman, currently managing director and deputy chairman, will become executive chairman.

The 86-store Allied Carpets chain, which sells carpets and home furnishings, was put up for sale in July at the same time MFI, the furniture retailer, and the dairy division were put on the market. Those two business were sold raising cash of around £555m between them.

Although a number of offers had been made to Asda-MFI for Allied Carpets, with the management itself thought to have bid £120m for a buy-out, since the stock market fall the offers had been reduced sharply. Bids appear to have been as low as £30m.

Mr Hardman said yesterday: "The sort of prices offered were not realistic. It is a good business and we can make more money out of running it."

In the last full year, ended May 2, Allied Carpets' reported operating profit was £9.6m out of total group operating profits of £188.6m. The cash available from a sale would not have generated a return equal to that.

Originally, Asda-MFI had planned to use the proceeds from the three disposals to meet a large part of the cost of its £1bn investment programme.

Mr Hardman said that the failure to sell Allied Carpets would not affect the planned investment. Allied Carpets, itself, could fund its own expansion while for the rest of the group it constituted a cashflow timing difference.

There was some disappointment in the City yesterday that the sale was not going ahead, since it would have left the Adsa-MFI management free to devote itself to the Asda stores.

But Mr John Richards, retail analyst at Wood Mackenzie, argued that Allied Carpets will "not require an injection of management time and effort." Asda-MFI shares closed down 2p at 159p.

The other appointments announced were that Mr David Gransby will become joint deputy chairman while continuing as property director; Mr Edward Lea retains his role as finance director and becomes joint managing director of Asda stores responsible for financial and management services; and Mr Tony Cambell becomes joint managing director of Asda stores responsible for trading activities.

See Lex

Sound Diffusion ends talks

BY PHILIP COGGAN

THE NEW board of **Sound Diffusion,** electrical equipment leasing group, instructed its advisers to terminate bid discussions for the company.

The decision was taken after the resignation of Mr Paul Stonor, the chairman and managing director, and Mr Alan Cross, the finance director. Those departures represent a victory for a group of institutions, led by the Throgmorton Trust, which had called for an extraordinary general meeting at which they would seek the pair's removal.

Shareholder dissension had grown in the wake of a series of missed profits forecasts and the resignation of the company's brokers and auditors. The announcement of an 88 per cent fall in interim pre-tax profits seems to have been the final straw.

Mr David Macdonald, the former director-general of the Takeover Panel, has been appointed as the new chairman and Mr Francis Howard, the former finance director of Charter Consolidated, is joining the board as a non-executive director.

Tunstall Group, the security equipment company, was unable to comment last night but the news is likely to disappoint Mr Michael Dawson, its chairman. At the time of Tunstall's preliminary results last week, he said he looked forward to negotiating with the new board. Tunstall owns 4.9 per cent of Sound Diffusion's equity.

But yesterday, the Sound Diffusion board said that it was unlikely to be in the shareholders' best interests for a takeover bid to be solicited at the present time.

Thorn EMI sells video recorder stake

BY TERRY DODSWORTH

Thorn EMI, the UK electronics group, is raising £6.5m from the sale of its 33 per cent stake in J2T, the video recorder manufacturing group which will then be jointly owned by Thomson of France and JVC of Japan.

The cash deal follows negotiations between the three partners in the collaborative venture over the last four months. Thorn decided to sell its interest in the video recorder company when it disposed of its Ferguson television manufacturing business to Thomson in July.

Completion of the transaction means that Thorn has completed its withdrawal from the consumer electronics equipment manufacturing sector. J2T was launched in 1982 with the aim of developing a European company capable of competing with Japanese companies in video recorders. The company is expected to make about 850,000 units this year.

Samuelson surges past £2m

Samuelson Group, supplier of equipment and services to the film and television industries, increased pre-tax profits by 57 per cent from £1.35m to £2.12m on turnover up from £24.58m to £32.04m for the half year to September 30 1987.

The company, in which Eagle Trust now has a stake of more than 60 per cent, increased earnings per 20p share from 4.21p to 5.6p but did not declare a dividend (0.8p). Tax amounted to £833,000 (£425,000).

The directors said they looked to the future of the company as part of the Eagle Trust group with confidence.

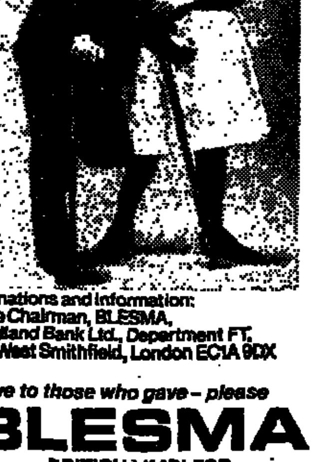
COMPANY NEWS IN BRIEF

***M&G SECOND* Dual Trust:** Asset value per 4p capital share based on middle quoted prices of the M&G Dividend Fund Income Units amounted to 336.2p (308.56p) on November 30. Earnings per 10p income share for the six months to end-November 7.96p (7.11p). Interim dividend 7.95p (7.1p) and final of at least 7.11p (6.45p) forecast.

BOGOD-PELEPAH: Interim dividend 0.1p (0.05p) for six months to September 30. Turnover £2.92m (£2.64m) and pre-tax profit £93,529 (£49,106). Tax took £33,000 (£17,000); earnings per ordinary were 0.568p (0.301p) and 1.136p (0.602p) per 'A' resytricted voting share.

BURFORD Group has sold the freehold of a 137,000 sq ft office and light industrial complex in Chelmsford for £3.5m to a private property company. Burford bought the property in July for £3m and it is currently producing £425,000 net income annually.

BRAKE BROS has acquired Scotia Frozen Foods for a total consideration of £2.5m to be satisfied through the issue of 740,000 new Brake ordinary at 165.4p per share.



Australian farming exports set to increase

By Chris Sherwell in Sydney

THE VALUE of Australian farm production and agricultural exports is expected to rise significantly in the current financial year, thanks largely to the recent sharp rise in wool prices.

Projections for 1987-88 published yesterday by the Government's Bureau of Agricultural and Resource Economics suggest a better outlook for the farm sector than a year ago.

Significantly, the forecasts assume that the recent worldwide share market collapse will lead to only a modest economic slowdown for one to two years.

The bureau argues that the low commodity prices of the 1980s have resulted in global supply adjustments, and that this year's recovery in prices will only stall if there are significant spill-over effects from the share market plunge.

Even if there is a recession, it says, individual commodities would be affected differently. Wool, cotton and some meat, forestry and fish products would be hurt most. Wheat, sugar and rice would suffer least.

According to the bureau's figures, the gross value of rural production will increase by 8.8 per cent in the year to June to A$18.5bn (US$13.2bn).

With costs forecast to increase just 5 per cent to A$15.1bn, net production will rise 31 per cent to A$3.4bn - the second year of improvement since the low point of 1985-86.

The main contribution to the increase comes from wool. Its projected output is valued at A$4.58bn, up 41 per cent, more than offsetting the 30 per cent fall in the value of wheat production to A$1.8bn.

Rural exports

On the export front, rural exports are projected to rise 13 per cent in value to A$13.75bn, although in volume terms the amount is expected to contract by 4 per cent.

The value of wool exports is expected to rise 33 per cent to A$5.1bn while meat, eggs and dairy products will increase by 12 per cent to 14 per cent. Wheat exports are forecast to slide 17 per cent to A$1.8bn.

Other significant points include:

- **Income disparities between livestock and grain farmers are expected to widen to their greatest levels in 1987-88, before diminishing gradually.**
- **Expansion of the poultry and pig industries and good export demand for beef are creating a sound outlook for the meat sector.**

Iranian threat gets Opec meeting off to bad start

BY RICHARD JOHNS IN VIENNA AND LUCY KELLAWAY IN LONDON

OIL PRICES weakened sharply yesterday morning as the meeting of the Organisation of Petroleum Exporting Countries got off to a bad start, with Iran threatening to opt out of any pact concluded by other members on production quotas.

In London the price of Brent crude oil for delivery in February fell by as much as 40 cents to $17.23, although it recovered later, leaving prices down by about 20 cents on the day.

Arab producing states are understood to be pushing for an average production limit for 1988 of 18.23m barrels a day (b/d), which would be adjusted quarterly to allow for seasonal variations in demand.

Iraq is prepared in principle to accept a quota provided that it is equal to whatever is accorded the Islamic Republic, although Iran indicated that it would not accept such an arrangement.

Baghdad has hitherto refused to collaborate with other members in production control since the decision in mid-1986 to renounce the policy of recovering market share in favour of price stabilisation.

Mr Gholamreza Aghazadheh, Iran's Minister of Oil, was uncompromising at the outset of the Opec conference here. The tenor of his remarks suggested that Iraq might be included in a production sharing accord at the expense of Iran – a reversal of the roles since the compromise reached between Saudi Arabia and Iran in 1986

"If our position is not appreciated we will not be a signatory (to any agreement)," the Iranian chief delegate told reporters yesterday

"If we don't sign anything we don't have a commitment to the production ceiling."

Iran wants Opec to increase the price of oil by more than $2 per barrel from the present agreed level centred on a reference of $18,so as to compensate for the depreciation of the dollar and inflation.

Opec's current output ceiling is a notional 16.6m b/d. Any new quota must take account of Iraqi production at least 1m b/d above the 1.54 b/d entitlement formally conceded to it by other members. Other allowances must be made for the gross violation by the United Arab Emirates of its allocation and also the flow of crude from the neutral zone shared 50-50 by Saudi Arabia and Kuwait.

Saudi Arabia and Kuwait are understood to be proposing that the limits on Opec production, should be 17.42m b/d in the first quarter, 17.54m b/d in the second, 19.60m b/d in the third and 18.39m b/d in the fourth according to delegates here.

The opening session of the meeting was devoted to administrative affairs. Subsequently, as bilateral consultations took place, Mr Aghazadheh held talks with Mr Riwalnu Lukman, the current President of Opec and Nigeria's Minister of Oil.

Mr Lukman was evidently engaged in an intensive effort to retain Iranian participation in a new production sharing pact.

Earlier the Iranian Chief Delegate had been adamant that his Government could not accept quota parity with Iraq.

Finally, the poisonous atmosphere generated by by the Gulf conflict looks as though it might paralyse Opec.

Venezuela plans $11bn oil investment

BY JOE MANN IN CARACAS

VENEZUELA'S NATIONAL oil company, Petroleos de Venezuela, will invest $11.6bn (£6.4bn) in petroleum and related activities between 1988 and 1993.

The largest investment will be made in oil production, refining, petrochemicals and exploration, according to statements by the Ministry of Energy and Mines.

The Government also has earmarked more than $779m for investments in oil ventures outside Venezuela, including new acquisitions and increased outlays for existing joint ventures in the US and Europe.

Petroloes de Venezuela currently is a joint venture partner in refining and distribution companies in the US, West Germany and Sweden.

Coffee pact members agree quota cut formula

By David Blackwell

COFFEE PRODUCERS and consumers have agreed on how to operate the rules governing reductions in the overall export quota if prices in the weak coffee market fall further.

The International Coffee Organisation's executive board decided in the early hours yesterday that only two cuts in the total export quota of 58m bags for the year from October 1 could be made in any one quarter.

The first quota cut of 1.5m bags was made only two days after the organisation agreed to reimpose export quotas at the beginning of October. The quotas, which had been suspended since February 1986, are intended to keep the price between 120 and 140 cents a lb.

As things stand, a further cut of 1.5m bags will be made if the ICO indicator price falls below 115 cents. The latest indicator available - for Tuesday - is 115.97 cents a lb.

The latest decision - described by the delegates as fine-tuning of the agreement - was made after two days of tough negotiations. It means that if a second cut has to be made and the price continues to fall, no further action can be taken until the January to March quarter.

Coffee prices on the London Fox (futures and options exchange) were weaker yesterday, with the second position robusta contract closing down £9 at £1,248 a tonne. Dealers said the ICO decision had been widely anticipated.

Soviets ratify UN Commodity Fund

BY WILLIAM DULLFORCE IN GENEVA

THE SOVIET Union yesterday ratified the UN Common Fund for Commodities, bringing the controversial $470m institution to within a hair's breadth of life after more than a decade in gestation.

Moscow's ratification means that 66 per cent of the $470m capital has been pledged. For the fund to become effective it must be ratified by countries representing two-thirds, 66.67 per cent, of the amount.

Several small countries, including the Ivory Coast, Thailand and Costa Rica, have signalled their intention of ratifying.

The US, after signing the agreement in 1980, has refused to ratify it, arguing that the common fund would make no significant contribution to the better functioning of commodity markets or to economic growth in less developed countries.

With scheduled contributions of 15.71 per cent and 5.78 per cent respectively the US and the Soviet Union had effectively prevented the common fund from coming into existence until Moscow's change of mind.

Conceived at the fourth United Nations Conference on Trade and Development in 1976, the common fund aims to help keep commodity prices stable.

The original idea was that it would provide supplementary financing for the buffer stocks of 10 international commodity agreements, including those covering cocoa, coffee, rubber and tin.

Only two ICAs, cocoa and rubber, now have buffer stocks that would qualify for finance.

Of more practical importance is the common fund's so-called 'second window', a separate fund to which some $256m has been pledged. It aims at developing new markets for commodity-dependent countries or helping them to diversify.

Changes bring fresh pressures for PMB

BY DAVID BLACKWELL

THE CHANGING structure of the potato industry in the UK has inevitably led to pressures on the Potato Marketing Board from the potato processing and distribution sectors, Mr Arnold Hitchcock, chairman, told the annual meeting yesterday.

When the board was founded in 1934, its structure and policy decisions were inevitably biased towards the growers. But a much greater proportion of the value added before the crop reaches the consumer now comes from food manufacturers and distributors, who also have a much greater proportion of the capital invested in the potato industry.

"It would be unrealistic to think that there will not be pressures for these external interests to have a greater say in the direction of the potato industry

'Positive' signs seen in diamond market

By Kenneth Gooding, Mining Correspondent

ALTHOUGH IT is too early to judge how the collapse of world equity markets in October will affect diamond sales, there are already some positive signs, says Mr Edmund Goldstein, president of the World Federation of Diamond Bourses.

Exports by the Israel diamond industry in October were 30 per cent higher than in the same month last year, for example, and Israel is still confident of boosting exports by 25 per cent in 1987 to $2bn. In the first 10 months of this year overseas sales totalled $1.7bn, compared with $1.66bn in the whole of 1986 and $1.26bn in 1985.

Mr Goldstein suggests in his latest newsletter that the diamond industry is far stronger than it was in the early 1980s, when it was battered by recession.

Far stronger

"Then the cutting centres were carrying large stocks of diamonds, many of them financed by heavy loans from the banks," he says. "Today the diamond market is far stronger, there is not the massive bank indebtedness or the worry about large stocks."

He also takes comfort from the fact that the Central Selling Organisation, the London-based subsidiary of De Beers responsible for marketing about 80 per cent of the world's diamonds, proved it could continue to keep supply and demand balanced through the last recession.

Mr Goldstein admits that the November "sight" at the Central Selling Organisation - when diamond buyers are shown what is for sale - was smaller than expected, but he is far from dismayed. "It will be the retailers after the Christmas sales who will provide a more direct pointer as to how the sales of diamonds are going," he states.

London gasoil trade tops 1m lots

By Lucy Kellaway

THE INTERNATIONAl Petroleum Exchange, London's oil futures market, announced yesterday that more than 1m lots had been traded so far this year in its successful gas oil contract. Over the last 18 months, turnover in the contract has doubled, and daily open interest is currently running at over 40,000 lots the exchange said.

Mr Peter Wildblood, the exchange's chief executive, said yesterday that the growth "relects an increasing participation from the trade and a better understanding of the ways the market can be used as a vehicle for separating price and supply arrangements."

EC breaks the ice in tropical products talks

William Dullforce on an initiative aimed at allowing serious bargaining to begin

TROPICAL PRODUCTS is the one item in Gatt's trade-liberalising Uruguay Round to which the European Community will afford priority. Mr Willy de Clercq, the EC Trade Commissioner, re-emphasised that in Geneva last week.

On the other 13 issues under negotiation the EC is resisting attempts by the US and other countries to reap "early harvests" by striking and implementing agreements on some specific items, such as agriculture, before the whole package is ready.

In a politically important gesture towards the Third World, however, the EC has taken the initiative by offering to eliminate or reduce its trade barriers to tropical products speedily. The US followed by calling on other countries to agree to a phasing out of barriers "on an expedited basis."

EC officials stress that the Community's proposal on tropical products aims at encouraging Third World co-operation in the Gatt round. It responds to the trade ministers' directive when launching the round at Punta del Este last year that tropical products should receive special consideration. But the offer from the 12 is far from the unilateral opening up of markets for which many developing countries have been looking and which they claim they have been promised.

Gatt divides tropical products into seven groups, ranging from coffee and cocoa through fruits, nuts, spices, vegetable oils, tobacco, rice, manioc and other roots, to woods, rubber and jute.

World trade in these products is estimated to amount to just under $60bn a year. They make up a sector in which Third World countries would have competitive advantages if trade barriers were removed.

The EC estimated that the products covered in its offer provided some 40 per cent of developing countries' export incomes. Trade in tropical products has declined appreciably in recent years, however, and has been hurt by sharp price falls.

According to figures from the UN Conference on Trade and Development the coffee trade amounted to $11bn in 1984 with cocoa and cocoa products accounting for $4.4bn and tea for $2.7bn.

Trade in tropical woods, including processed wood, was valued at $8.6bn that year. Fruits and nuts accounted for $3.6bn and spices for $1.1bn.

In two previous Gatt rounds the industrialised countries agreed that tropical products merited special treatment, but the results were frustrating for developing countries.

Tariffs on raw materials, especially on coffee, cocoa, tea and spices, have been substantially eliminated but non-tariff barriers – import quotas and other quantitative restrictions – have not fallen.

Third World countries argue that the industrial world can open its markets freely to tropical products without seriously disturbing domestic producers. This is too simplistic an argument for two reasons.

- Farmers in the temperate climates grow crops which compete with tropical produce. US soya oils, for instance, are challenged by palm oils.

Tropical vegetable oils form one of the toughest issues for the current Gatt talks. If copra and groundnuts are included, exports of such oils were valued at $8.5bn in 1984.

An attack by the Philippines delegate on the US in the surveillance body of the Uruguay round recently illustrated the political tension that can be generated over vegetable oils.

He accused the American Soyabean Association of conducting a smear campaign against palm and coconut oils, which, he claimed, was jeopardising the Aquino Government's programme for economic recovery.

- The processing of tropical raw materials is big business in industrialised countries. US producers of instant coffee seek and obtain protection against imports processed in Brazil.

It is against this background that the EC proposal must be judged for what it offers and does not offer. It explicitly excludes vegetable oils, rice, bananas, cut flowers and root crops such as manioc.

Rice, it is now generally accepted, must be handled in the separate talks on agricultural trade. The same approach might be applied with less cogency to root crops.

Leaving out cut flowers is designed to protect the Netherlands, which commands about half the trade. But Colombia and other developing countries have increasingly important stakes in this market, valued at no less than $1.4bn in 1984.

In bananas the Community gives preference to Jamaica and other Caribbean countries. EC officials stressed that the whole offer was conditional on acceptable adjustments being negotiated for the products of least developed countries granted preferences under the Lome Convention.

Other conditions attached to the EC offer are that the burden of concessions should be shared by other industrial countries and that developing countries benefiting should grant reciprocal trade concessions.

From the beneficiaries the EC wanted guarantees that no restraints would be imposed on exports of raw materials. Brussels does not want European chocolate manufacturers to bes-tarved of cocoa.

Nonetheless the EC has broken fresh ground. It has offered to eliminate or significantly reduce duties on a considerable range of semi-processed tropical products and to reduce duties on finished or processed products.

It would also abolish or cut a number of national non-tariff restrictions and progressively do away with consumption taxes on coffee, tea and cocoa.

This last concession puts Community internal taxes on the negotiating table and acknowledges a long-standing Third World argument that consumption in industrial countries would grow, if the taxes were dropped. The concession would be particularly expensive for the West German federal budget.

The political significance of the EC offer has been generally acknowledged by the developing countries. It should act as a catalyst, an invitation to negotiators to start talking detail.

It cannot be seen as a breakthrough, however, hedged as it is with conditions and exceptions. It implicitly warns the developing countries not to expect the dramatic unilateral concessions they have been claiming as their right. A bargain still has to be struck.

WORLD COMMODITIES PRICES

SPOT MARKETS

Crude oil (per barrel FOB December)		+ or -
Dubai	$16.30-6.40z	–0.065
Brent Blend	$17.40-7.50	–0.15
W.T.I.(1 pm est)	$18.20-8.25z	–0.10

Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	177-179	–3
Gas Oil	159-161	–2
Heavy Fuel Oil	79-80	–1
Naphtha	151-153	–2
Petroleum Argus Estimates		

Other		+ or -
Gold (per troy oz)♣	$483.75	–0.25
Silver (per troy oz)♣	670c	–2
Platinum (per troy oz)	$495.00	+0.50
Palladium (per troy oz)	$118.25	+2.00
Aluminium (free market)	$1730	+5
Copper (US Producer)	122¾-128c	+3.5
Lead (US Producer)	42c	
Nickel (free market)	322c	+2
Tin (European free market)	£3825	–30
Tin (Kuala Lumpur market)	16.95r	–0.01
Tin (New York)	319c	
Zinc (Euro. Prod. Price)	$860	
Zinc (US Prime Western)	44.375c	
Cattle (live weight)†	108.25p	+5.39*
Sheep (dead weight)†	206.33p	+6.92*
Pigs (live weight)†	74.02p	+4.26*
London daily sugar (raw)	$202.60w	–1.40
London daily sugar (white)	$207.50w	–2.00
Tate and Lyle export price	£218.00	–2.00
Barley (English feed)	£113.00u	
Maize (US No. 3 yellow)	£134.00	+0.50
Wheat (US Dark Northern)	£92.00	
Rubber (spot)♥	62.00p	–0.50
Rubber (Jan) ♥	64.00p	–0.50
Rubber (Feb) ♥	64.00p	–0.50
Rubber (KL RSS No 1 Jan)	268.00m	–1.00
Coconut oil (Philippines)§	$535y	
Palm Oil (Malaysian)§	$400	–5
Copra (Philippines)§	$350	+5
Soyabeans (US)	£146	
Cotton "A" index	74.50c	+0.55
Wooltops (64s Super)	484p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. w-Dec/Jan. v-Jan/Feb. x-Nov/Dec. z-Jan. y-Feb/Mar. u-Jan/Mar † Meat Commission average fatstock prices. * change from a week ago. ♥ London physical market. § CIF Rotterdam. ♣ Bullion market close. m-Malaysian/Singapore cents/kg

COCOA £/tonne

	Close	Previous	High/Low
Dec	1003	1006	1003 993
Mar	1035	1043	1040 1026
May	1057	1061	1058 1046
Jly	1075	1081	1076 1064
Sep	1094	1101	1094 1086
Dec	1118	1125	1120 1108
Mar	1143	1150	1140 1134

Turnover: 5464 (3739) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for December 8: 1348.05 (1367.47*) .10 day average for December 9: 1420.33 (1432.68*). *Official correction.

COFFEE £/tonne

	Close	Previous	High/Low
Jan	1227	1234	1236 1225
Mar	1248	1257	1258 1245
May	1271	1280	1277 1267
Jly	1286	1294	1295 1284
Sep	1300	1308	1304 1296
Nov	1317	1325	1324 1318
Jan	1340	1350	

Turnover: 1705 (2323) lots of 5 tonnes
ICO indicator prices (US cents per pound) for December 8: Comp. daily 115.61 (115.01); 15 day average 115.97 (115.94).

SUGAR $ per tonne

Raw	Close	Previous	High/Low
Mar	181.60	178.40	181.60 177.00
May	181.80	178.40	181.80 177.40
Aug	182.20	178.80	182.00 178.20
Oct	183.00	180.00	182.60 179.20
Dec	184.80	182.00	
Mar	188.20	185.40	187.80
May	190.00	188.60	

White	Close	Previous	High/Low
Mar	215.50	212.40	218.00 211.00
May	220.00	216.00	218.50 216.00
Aug	224.00	220.00	221.00 220.00
Oct	225.00	220.00	222.00 220.00
Dec	226.00	221.50	
Mar	231.00	228.00	230.00 227.00
May	235.00	232.00	

Turnover: Raw 2341 (2304) lots of 50 tonnes; White 956 (1161).
Paris- White (FFr per tonne): Mar 1200, May 1223, Aug 1256, Oct 1251, Dec 1265, Mar 1295.

GAS OIL $/tonne

	Close	Previous	High/Low
Dec	157.50	160.50	159.00 156.50
Jan	157.50	160.00	158.50 156.00
Feb	154.50	157.00	155.75 153.00
Mar	150.50	153.75	152.00 150.00
Apr	147.00	150.00	149.00 147.00
May	146.00	149.00	147.00 146.00
Jun	146.50	149.00	147.00 146.50

Turnover: 8617 (8025) lots of 100 tonnes

GRAINS £/tonne

Wheat	Close	Previous	High/Low
Jan	115.25	115.65	115.75 115.25
Mar	116.45	116.90	116.90 116.45
May	118.65	119.05	119.05 118.65
Jly	121.00	121.50	121.50 121.00
Sep	103.60	103.60	
Nov	105.55	105.60	105.55
Jan	108.15	108.15	

Barley	Close	Previous	High/Low
Jan	107.65	108.00	107.80 107.65
Mar	109.15	109.00	109.30 109.15
May	110.30	111.00	
Sep	97.70	97.70	
Nov	100.10	100.10	
Jan	102.35	102.35	

Turnover: Wheat 236 (314) , Barley 65 (89) lots of 100 tonnes.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 0 tonne
Cash	1735-45	1690-1710		1725-35		
3 months	1705-15	1665-75		1700-10	1705-15	2,527 lots
Aluminium,99.5% purity (£ per tonne)						Ring turnover 20,850 tonne
Cash	955-7	934-6		951-2		
3 months	932.5-3	915-16	937/916	928-9	936-7	59,141 lots
Copper, Grade A (£ per tonne)						Ring turnover 39,525 tonne
Cash	1465-70	1490-3	1451/1450	1450-2		
3 months	1308-9	1320-1	1325/1282	1288-9	1321.5-2	81,848 lots
Copper, Standard (£ per tonne)						Ring turnover 150 tonne
Cash	1420-5	1440-50	1390	1402-3		
3 months	1285-90	1295-1305		1265-70		42 lots
Silver (US cents/fine ounce)						Ring turnover 0 ozs
Cash	667-70	668-71		674-7		
3 months	680-3	681-4		687-90	680-3	727 lots
Lead (£ per tonne)						Ring turnover 12,275 tonne
Cash	350-50.5	355.5-7	347/346.5	346-6.5		
3 months	338-9	343.5-4	341/336	336.5-7	340-2	12,500 lots
Nickel (£ per tonne)						Ring turnover 2,682 tonne
Cash	3920-30	3970-5		3830-5		
3 months	3870-80	3915-20	3910/3780	3775-80	3880-3900	9,238 lots
Zinc (£ per tonne)						Ring turnover 6,450 tonne
Cash	477-8	482.5-3.5		477-7.5		
3 months	479-80	486-6.5	482/480	479-80	481-2	14,063 lots

POTATOES £/tonne

	Close	Previous	High/Low
Feb	99.00	99.00	
Mar	88.00	89.00	88.00
Apr	143.50	142.00	143.50 142.00
May	156.60	156.10	157.00 156.00
Nov	85.50	83.00	
Nov	90.00	90.00	

Turnover: 153 (366) lots of 100 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Feb	140.00	142.50	142.00 140.00
Apr	135.00	134.50	
Jun	124.50	125.50	124.50
Aug	123.00	123.50	122.50
Oct	122.80	123.50	
Dec	124.60	124.50	

Turnover: 36 (201) lots of 100 tonnes.

FREIGHT FUTURES £/index point

	Close	Previous	High/Low
Jan	1291.0	1297.0	1301.0 1280.0
Apr	1298.0	1318.0	1312.0 1295.0
Jly	1154.0	1165.0	1162.0 1154.0
BFI	1270.0	1259.0	

Turnover: 354 (211)

WOOL
Practically all wool offered at auction is being taken up by the trade and this is seen as one of the most encouraging features of the world market. Reserve price purchases by the Australian Wool Corporation (AWC) are still unnecessary and the stockpile is nearly exhausted. Thus confidence in market strength persists despite a lull in new business. Prices are generally very firm without at present showing a clear trend. The AWC indicator at A$9.19 per kg. compares with A$9.10 a week ago and A$5.86 a year ago. The UK industry is busy producing to meet orders already on the books.

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	483½-484	268-268½
Opening	484¾-485¼	268¼-268¾
Morning fix	485.30	268.537
Afternoon fix	484.20	268.374
Day's high	486-486½	
Day's low	483½-484	

Coins	$ price	£ equivalent
US Eagle	498-503	276-279
Mapleleaf	498-503	276-279
Britannia	498-503	276-279
Krugerrand	482-485	267-269
1/2 Krug	251-260	139¼-144¼
1/4 Krug	124-132	68¾-73¼
Angel	495-500	274½-277½
1/10 Angel	49-54	27¼-30
New Sov.	113¾-114¾	63-63¾
Old Sov.	113¼-115¼	63-64
Noble Plat	506-514	280-284½

Silver fix	p/fine oz	US cts equiv
Spot	374.20	676.00
3 months	382.80	689.60
6 months	390.75	703.60
12 months	407.50	731.80

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.5%)	Calls		Puts	
Strike price $ tonne	Jan	Mar	Jan	Mar
1700	62½	71	31½	66½
1725	49		42½	
1750	37½		56	

Copper (Grade A)	Calls		Puts	
Strike price $ tonne	Jan	Mar	Jan	Mar
2400	206	230	65	260
2500	147	191	105	319
2600	101	158	159	383

Copper (Grade A)	Calls		Puts	
Strike price £ tonne	Jan	Mar	Jan	Mar
1375	76		41	
1400	62		52½	
1425	50½		65½	

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Short covering trims $ fall

THE DOLLAR closed around its highest levels of the day in Europe, dominated by speculation about today's publication of the October US trade figures.

Seasonal growth in exports is likely to be outweighed by an even greater rise in imports, leaving the deficit larger than September's figure of $14.08bn.

Dealers feel the the dollar has little to recommend it at present, and even a relatively good trade shortfall of around $14bn is unlikely to produce any dramatic improvement. Yesterday's main concern was based on rumours the deficit will be above $16bn.

This led to a weak opening by the dollar in the main European centres. It closed lower on the day, but short covering and squaring of positions trimmed the currency's losses towards the close.

The dollar fell to DM1.6640 from DM1.6680; to FFr5.6375 from FFr5.6525; to SFr1.3605 from SFr1.3640; and to Y132.40 from Y132.70.

According to the Bank of England the dollar's exchange rate index fell to 95.2 from 95.5.

STERLING-Trading range against the dollar in 1987 is 1.8260 to 1.4710. November average 1.7770. Exchange rate index rose 0.1 to 75.8, compared with 73.3 six months ago.

Sterling traded quietly, with no new factors to influence the currency. The next important guide for the pound is likely to be provided by tomorrow's UK retail prices index for November. General expectations are for a monthly rise of 0.3 p.c. to 0.4 p.c., bringing the year-on-year inflation rate down to 4 p.c. from 4.5 p.c.

The pound rose above $1.80 for the first time this week, gaining 60 points to $1.8020-1.8030. It closed unchanged at DM2.9975, with Barclays Bank suggesting that the DM3.00 level appears impenetrable. Sterling improved to FFr10.1625 from FFr10.1550; to SFr2.4525 from SFr2.45; and to Y238.75 from Y238.50.

D-MARK-Trading range against the dollar in 1987 is 1.9305 to 1.6400. November average 1.6809. Exchange rate index 151.0 against 147.4 six months ago.

The D-Mark rose against the dollar, but there was no sign the recent trading range of DM1.65 to DM1.68 is about to be broken. It will probably take a surprise today about the US trade figures to shift the market.

The Bundesbank's allocation of funds at this week's securities repurchase agreement tender was in line with expectations and had no impact.

There was some disappointment on Tuesday that the tender rate was not reduced, following last week's cut in the West German discount rate, but in general the Bundesbank has kept banks well supplied with funds.

At the Frankfurt fixing the Bundesbank did not intervene when the dollar was set at DM1.6590, compared with DM1.6670 on Tuesday. The US currency finished at DM1.6620 in Frankfurt, against DM1.6690 at the previous close.

JAPANESE YEN-Trading range against the dollar in 1987 is 159.45 to 132.45. November average 135.90. Exchange rate index 232.3 against 222.4 six months ago.

Trading was quiet in Tokyo, with the dollar confined to a narrow range against the yen, but closing at the day's low of Y132.35 on selling of the US currency by securities houses. The dollar closed on Tuesday at Y132.80, and opened yesterday at Y132.60. The Bank of Japan was reported to have bought a small amount of dollars at Y132.40. Traders were generally content to remain on the sidelines, awaiting publication today of the US trade figures.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Dec 9	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.1966	N/A	N/A	±1.5344
Danish Krone	7.85212	7.95873	N/A	N/A	±1.5404
German D-Mark	2.05853	2.06505	N/A	N/A	±1.0981
French Franc	6.90403	6.99756	N/A	N/A	±1.3674
Dutch Guilder	2.31943	2.32298	N/A	N/A	±1.5012
Irish Punt	0.768411	0.775802	N/A	N/A	±1.6684
Italian Lira	1483.58	1521.07	N/A	N/A	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Dec 9	Latest	Previous Close
[illegible]	[illegible]	[illegible]

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Dec 9	Previous
[illegible]	[illegible]	[illegible]

CURRENCY RATES

	Bank rate %	Special Drawing Rights	European Currency Unit
[illegible]	[illegible]	[illegible]	[illegible]

CURRENCY MOVEMENTS

Dec 9	Bank of England Index	Morgan Guaranty Changes %
[illegible]	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100).

OTHER CURRENCIES

Dec 9	£	$
Argentina	7.4345-7.7275	4.2300-4.2800
Australia	[illegible]	[illegible]
Brazil	[illegible]	[illegible]
Finland	7.3555-7.3685	4.0770-4.0790
Greece	234.60-238.55	129.80-131.95
Hong Kong	14.0210-14.0380	7.7740-7.7760
Iran	121.60*	67.25*
Korea(Sth)	1425.05-1437.95	792.30-798.70
Kuwait	0.49830-0.49880	0.27615-0.27625
Luxembourg	62.40-62.50	34.60-34.70
Malaysia	4.5025-4.5140	2.4985-2.5005
Mexico	4024.70-4116.55	2230.00-2280.00
N. Zealand	2.8140-2.8190	1.5585-1.5615
Saudi Ar.	6.7655-6.7715	3.7495-3.7505
Singapore	3.6625-3.6705	2.0310-2.0325
S. Af (Cm)	3.5275-3.5436	1.9570-1.9625
S. Af (Fn)	5.4300-5.5980	3.0075-3.1005
Taiwan	52.45-52.75	29.20-29.30
U.A.E.	6.6270-6.6325	3.6525-3.6535

*Selling rate

POUND SPOT- FORWARD AGAINST THE POUND

Dec 9	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc 62.95-63.05. Six-month forward dollar 0.59-0.54c pm. 12-month 1.15-1.05pm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Dec 9	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 34.90-35.00.

EURO-CURRENCY INTEREST RATES

Dec 9	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years 8⅝-8⅞ per cent; three years 9⅛-9⅜ per cent; four years 9⅜-9⅝ per cent; five years 9⅝-9⅞ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Dec 9	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.803	2.998	238.8	10.16	2.453	3.375	2206	2.356	62.45
$	0.555	1	1.663	132.5	5.638	1.361	1.872	1224	1.307	34.65
DM	0.334	0.601	1	79.65	3.390	0.818	1.126	735.8	0.786	20.83
YEN	4.188	7.550	12.55	1000	42.57	10.27	14.14	9238	9.866	261.5
F Fr.	0.984	1.774	2.950	234.9	10	2.413	3.321	2170	2.318	61.45
S Fr.	0.408	0.735	1.222	97.35	4.144	1	1.376	899.3	0.960	25.46
H Fl.	0.296	0.534	0.888	70.74	3.011	0.727	1	653.5	0.698	18.50
Lira	0.453	0.817	1.359	108.3	4.608	1.112	1.530	1000	1.068	28.32
C $	0.425	0.765	1.273	101.4	4.314	1.041	1.433	936.3	1	26.51
B Fr.	1.601	2.886	4.800	382.3	16.27	3.927	5.404	3532	3.772	100

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

Gilts slightly higher

GILT PRICES were marginally firmer in the Liffe market yesterday but trading volume slumped to a disappointing total of just under 10,000. Most traders were resigned to the marked downturn in activity. Uncertainty caused by the dollar's performance played a significant part in keeping most people on the sidelines.

Long term gilts appeared to be out of favour mainly because most analysts saw the recent downturn in UK interest rates as a result of recent international efforts to support the dollar. There were fears that cuts had been made at the expense of domestic considerations and that lower interest rates now were compromising the prospects of keeping inflation in check in the longer term.

For this reason tomorrow's UK retail prices index assumes a greater importance because the feeling is that a rise in the region of 0.4 p.c., although leading to a downturn in the year on year rate, will be unlikely to allay fears of a possible upturn later next year.

The March contract opened at 118-27, up from 118-25 on Wednesday and traded in a relatively narrow range before closing at 118-29.

The lack of trading volume in US Treasury bonds made it difficult to establish any real trend. Volume for the day finished at a less than inspiring 3,000 lots. Cash rates tended to edge firmer yesterday morning as it became clear that any prospects for a move in US interest rates was more likely to be up rather than down. Consequently the March Treasury bond price fell to 85-23 at the close. While this was up from the opening level of 85-16, it was down from Tuesday's level of 86-03.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-Last Mar	Calls-Last Jun	Puts-Last Mar	Puts-Last Jun
116	4.02	4.61	1.08	2.23
118	2.50	3.53	1.56	3.15
120	1.53	2.58	2.59	4.20
122	1.06	2.09	4.12	5.35
124	0.44	1.34	5.50	6.60
126	0.25	1.05	7.31	8.31
128	0.13	0.47	9.19	10.09
130	0.08	0.31	13.09	13.46

Estimated volume total, Calls 1741 Puts 771
Previous day's open int: Calls 24052 Puts 11156

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-Last Mar	Calls-Last Jun	Puts-Last Mar	Puts-Last Jun
82	4.41	4.51	0.59	1.57
84	3.20	3.41	1.38	2.47
86	2.08	2.41	2.26	3.47
88	1.19	1.57	3.37	4.63
90	0.48	1.20	5.02	6.26
92	0.26	0.56	6.44	7.62
94	0.13	0.37	8.31	9.43
96	0.06	-	10.24	-

Estimated volume total, Calls 0 Puts 75
Previous day's open int: Calls 767 Puts 704

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-Last Dec	Calls-Last Jan	Puts-Last Dec	Puts-Last Jan
15000	14.98	18.68	0.18	1.13
15250	12.68	—	0.35	—
15500	10.44	14.63	0.64	2.08
15750	8.39	—	1.09	—
16000	6.55	11.08	1.75	3.53
16250	4.96	—	2.66	—
16500	3.62	8.09	3.82	5.54
16750	2.55	—	5.25	—

Estimated volume total, Calls 0 Puts 0
Previous day's open int: Calls 49 Puts 137

LIFFE £/$ OPTIONS

£25,000 (cents per £1)

Strike Price	[illegible]
[illegible]	[illegible]

LONDON SE £/$ OPTIONS

£12,500 (cents per £1)

Strike Price	[illegible]
[illegible]	[illegible]

PHILADELPHIA SE £/$ OPTIONS

£12,500 (cents per £1)

Strike Price	[illegible]
[illegible]	[illegible]

LIFFE-EURODOLLAR OPTIONS

$1m points of 100%

Strike Price	[illegible]
[illegible]	[illegible]

LONDON

20-YEAR 12% NOTIONAL GILT; 6% NOTIONAL LONG TERM JAPANESE GOVT. BOND; THREE-MONTH STERLING; US TREASURY BONDS; FT-SE 100 INDEX; THREE-MONTH EURODOLLAR; U.S. TREASURY BONDS 8%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CURRENCY FUTURES

POUND-$ (FOREIGN EXCHANGE); IMM-STERLING; LIFFE-STERLING

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8%; JAPANESE YEN (IMM); DEUTSCHE MARK (IMM); U.S. TREASURY BILLS (IMM); THREE-MONTH EURODOLLAR (IMM)

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC (IMM)

SFr 125,000 $ per SFr

	Close	High	Low	Prev.
Dec	0.7370	0.7377	0.7367	0.7363
Mar	0.7442	0.7450	0.7438	0.7435
Jun	0.7525	0.7540	0.7515	0.7515
Sep	-	-	-	0.7595
Dec	-	0.7671	0.7671	0.7685

STANDARD & POORS 500 INDEX

$500 times index

	Latest	High	Low	Prev.
Dec	234.30	234.60	233.50	234.65
Mar	235.30	235.302	34.50	235.55
Jun	235.35	-	236.35	236.85
Sep	238.80	234.10	238.80	239.30

MONEY MARKETS

UK longer term rates higher

INTEREST RATES were a little higher at the longer end in the London money market yesterday. Most traders were looking for a reduction to 8 p.c. in bank base rates but the movethereafter was definitely pointing towards an upward trend.

Uncertainty caused by the dollar's volatility and sterling's current strong position left many traders in doubt about new investments.

UK clearing bank base lending rate 8½ per cent from December 4

Dealers suggested that there was a temptation to move more into an overseas portfolio. The alternatives appeared to be less than appealing. There was little short term cash rate incentive when the possibilities of a better return in a few months' time seemed better, while equities and longer term investments were affected respectively by fears of another sharp downturn in stock markets and growing expectations of a rise in rates in the longer term.

Three-month interbank money was quoted at 8⅝-8½ p.c. compared with 8$^{11}/_{16}$-8⅝ p.c. while the one year rate moved up to 9$^{1}/_{16}$-8$^{15}/_{16}$ p.c. from 9-8⅞ p.c.

The Bank of England forecast a shortage of around £100m with factors affecting the market including the repayment of late assistance and bills maturing in official hands together with a take up of Treasury bills draining £660m and a rise in the note circulation of £195m. In addition banks brought forward balances £40m below target. These were partly offset by Exchequer transactions which added £815m.

The forecast was revised to a shortage of around £150m but there was no intervention by the Bank in the morning. In the afternoon the Bank declined to intervene. Late help came to £45m.

In Frankfurt the Bundesbank allocated DM11.4bn at its latest 35-day sale and repurchase tender at a fixed rate of 3.25 p.c. Successful applicants received their quota yesterday afternoon. At the same time an expiring facility drained DM11.8bn from the market although liquidity levels were not affected by the net DM400m leaving the market. This was because additional funds continue to reach the market as a result of Bundesbank intervention to support the dollar.

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec 9) 3 months US dollars / 6 months US Dollars

bid	offer	bid	offer
[illegible]	[illegible]	[illegible]	[illegible]

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

		Treasury Bills and Bonds	
Prime rate	[illegible]	One month	[illegible]
Broker loan rate	[illegible]	Two month	[illegible]
Fed.funds	[illegible]	Three month	[illegible]
Fed.funds at intervention	[illegible]	Six month	[illegible]

December 9	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

December 9	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Company Notices

NOTICE TO HOLDERS OF EUROPEAN DEPOSITARY RECEIPTS (EDRs) IN STAR MICRONICS CO., LTD.

Further to our notice of August 14, 1987 EDR holders are informed that Star Micronics has paid a dividend to holders of record August 31, 1987. The cash dividend payable in Yen 2-5 per Common Stock of Yen 50.00 per share. Pursuant to the Terms and Conditions the Depositary has converted the net amount, after deduction of Japanese withholding taxes, into United States Dollars.

EDR holders may now present Coupon No. 10 for payment to the undermentioned agents.

Payment of the dividend with a 15% withholding rate. Countries currently having such arrangements are as follows:

A.R. of Egypt	F.R. of Germany	Malaysia	Singapore
Australia	Finland	The Netherlands	Spain
Belgium	France	New Zealand	Sweden
Brazil	Hungary	Norway	Switzerland
Canada	Indonesia	Poland	United Kingdom
Czechoslovakia	Ireland	Rep. of Korea	U.S. of America
Denmark	Italy	Romania	Zambia

Failing receipt of a valid affidavit Japanese withholding tax will be deducted at the rate of 20% on the gross dividend payable. The full rate of 20% will also be applied to any dividends unclaimed after March 31, 1988.

Amounts payable in respect of current dividends.

Coupon No. 10 EDR denomination	Gross Dividend	Dividend payable less 15% Japanese withholding tax	Dividend payable less 20% Japanese withholding tax
1,000 shares	$18.72	$15.91	$14.98

Depositary: Citibank, N.A. 336 Strand, London, WC2R 1HB

Agent: Citicorp Investment Bank (Luxembourg) S.A. 16 Avenue Marie Therese

December 10, 1987

Contracts & Tenders

'Invitation for qualified,

experienced contractors in the execution of 5 star hotels.

The project: 5 Star Hotel - Capacity 200 RMS - Taizz, Yemen Arab Republic, owned by Arabia Felix Hotel Co. Pre-qualified forms are available from Dec 1st 1987 to Dec 31st 1987 for the attention of:

Mr. Ahmed Abdo Saeed
Chairman - Arabia Felix Hotel Co.
PO Box 6732
Taizz
Yemen Arab Republic

All forms should be received at the above address by February 1988 latest.'

EUROPEAN ECONOMIC COMMUNITY
$US 200.000.000 11,5% 1983/1995

We inform the bondholders that the redemption instalment of $US 20.000.000,- nominal due on January 18, 1988, has been satisfied by a drawing on November 26, 1987, in Luxembourg.

The bonds will be reimbursed at par on January 18, 1988, coupon due on January 18, 1989 and following attached, according to the modalities of payment on the bonds.

The numbers of such drawn bonds are as follows:

in denomination $US 1.000 1 to 8 and 6969 to 10.000
in denomination $US 10.000 2703 to 4398

The following bonds in denomination $US 10.000, called for redemption on January 18, 1987, have not yet been presented for the payment:

741	752 - 755	792	794
1042 - 1043	1048	1143 - 1144	1202 - 1203
1232	1249 - 1254		

Amount outstanding after January 18, 1988: $US 140.000.000,-

THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE ALSACIENNE DE BANQUE
15, Avenue Emile Reuter
Luxembourg

NOTICE TO HOLDERS OF WARRANTS
MITSUBISHI PLASTICS INDUSTRIES LIMITED
2⅞ PER CENT GUARANTEED NOTES DUE 1991 WITH WARRANTS
AND
1⅞ PER CENT GUARANTEED NOTES DUE 1992 WITH WARRANTS

Pursuant to Clause 3 and 4 of the Instrument dated 31st July, 1986, and 18th June, 1987, the following notice shall be given.

At the meeting of the Board of Directors of Mitsubishi Plastics Industries Limited (the 'Company') held on 27th November, 1987, a resolution was adopted for the issue of new shares by way of free distribution, particulars of which are given below. Consequently the subscription prices of the captioned Warrants (the 'Warrants') shall be adjusted, as specifically provided in paragraph 3 below.

1) The free distribution of new shares will be made to shareholders of record as of 31st December, 1987, Tokyo time, at a ratio of 0.14 for each one share held.
2) The free distribution shall be made on 17th February, 1988, but the dividends for these new shares will accrue as from 1st January, 1988, Tokyo time.
3) Pursuant to Condition 3(i) of the Instrument, the subscription prices will be adjusted from Yen 600.00 to Yen 526.30 and from Yen 713.00 to Yen 625.40, respectively, per share of the Company's common stock. The new subscription prices will become effective on 1st January, 1988, which is immediately after the record date.

THE MITSUBISHI BANK, LIMITED
as Principal Paying Agent
for and on behalf of
MITSUBISHI PLASTICS INDUSTRIES LIMITED
10th December, 1987

BANQUE NATIONALE DE PARIS
ECU 75,000,000 - 7⅞ PCT 1987-1990

In accordance with condition 5 of the bonds, notice is hereby given that the list of Paying Agents is amended. Principal and interest will be payable at the offices of Banque Nationale de Paris (Luxembourg) S.A. in Luxembourg, the principal Paying Agent, and of Banque Nationale de Paris P.L.C. in London and of Girozentrale und Bank der Oesterreichischen Sparkassen A.G. in Vienna, the Paying Agents.

Banque Nationale de Paris

Art Galleries

Barling, 112 Mount St, W1. 499 2858. TCHELITCHEW-Works from the Artist's Estate. Until 12 Dec. Presented by RICHARD NATHANSON, Mon-Sat (all day Sat) 10-5

LEFEVRE GALLERY - 30 Bruton Street, W1. 01-493 2107. An exhibition of works by Edward Burra (1905-1976). 4th November - 18th December, Mon-Fri 10-5, Sats 10-12.30

Clubs

EVE has outlived the others because of a policy on fair play and value for money. Supper from 10-3.30 am. Disco and top musicians, glamorous hostesses, exciting floorshows. 189, Regent St., W1. 01-734 0557.

Personal

PUBLIC SPEAKING Training and speech writing by award winning public speaker. First lesson free. 01-839 8552.

EUROPEAN OPTIONS EXCHANGE

Series		May. 88 Vol	Last	Aug. 88 Vol	Last	Dec. 88 Vol	Last	Stock
GOLD C	$ 520	22	8.10	–	–	–	–	$ 484.70
GOLD C	$ 540	10	5.90	110	12.50	–	–	$ 484.70
GOLD P	$ 400	22	1	–	–	–	–	$ 484.70
GOLD P	$ 460	–	–	115	10.50	4	15	$ 484.70
		Dec. 87		Jan. 88		Feb. 88		
EOE Index C	Fl. 160	19	5	17	11	2	17	Fl. 161.92
EOE Index C	Fl. 165	722	3	31	9	–	–	Fl. 161.92
EOE Index C	Fl. 170	85	1.70	12	6.50	2	12	Fl. 161.92
EOE Index C	Fl. 180	14	0.60	108	4.50	2	9	Fl. 161.92
EOE Index C	Fl. 185	50	0.50	–	–	–	–	Fl. 161.92
EOE Index C	Fl. 195	–	–	17	1.40	–	–	Fl. 161.92
EOE Index C	Fl. 200	–	–	175	1.20	–	–	Fl. 161.92
EOE Index P	Fl. 155	378	2.80	33	7	3	10.90	Fl. 161.92
EOE Index P	Fl. 160	118	4.10	21	9.50	2	13.50	Fl. 161.92
EOE Index P	Fl. 165	28	6.50	3	12	2	15.50	Fl. 161.92
EOE Index P	Fl. 170	23	9.50	1	15	–	–	Fl. 161.92
EOE Index P	Fl. 180	17	18	5	21	2	23.50	Fl. 161.92
EOE Index P	Fl. 190	19	28	2	30	–	–	Fl. 161.92
EOE Index P	Fl. 255	105	93	100	93	–	–	Fl. 161.92
£/Fl C	Fl. 335	191	1.80	–	–	–	–	Fl. 337.35
$/Fl C	Fl. 190	27	0.80	–	–	–	–	Fl. 187
$/Fl C	Fl. 195	215	0.10	–	–	–	–	Fl. 187
$/Fl P	Fl. 185	37	1	50	3 B	1	4.40	Fl. 187
$/Fl P	Fl. 190	14	3.80	204	5.80 A	–	–	Fl. 187
$/Fl P	Fl. 205	32	18.50	–	–	–	–	Fl. 187
$/Fl P	Fl. 210	30	23.50	–	–	–	–	Fl. 187
		Jan. 88		Apr. 88		Jul. 88		
ABN C	Fl. 50	–	–	11	0.80	350	1	Fl. 37.20
ABN P	Fl. 35	69	0.60	17	2.10	–	–	Fl. 37.20
AEGON C	Fl. 50	–	–	10	6.50	117	7.90	Fl. 53.20
AEGON P	Fl. 55	10	4	20	5.20 A	–	–	Fl. 53.20
AHOLD C	Fl. 60	83	4.70	11	7.50	–	–	Fl. 61.40
AHOLD P	Fl. 60	58	3.80	–	–	–	–	Fl. 61.40
AKZO C	Fl. 180	582	0.10 A	3	0.60	–	–	Fl. 86.80
AKZO P	Fl. 90	76	6.80	–	–	–	–	Fl. 86.80
AMEV P	Fl. 30	–	–	4	1.80	100	2.50	Fl. 34.30
AMRO C	Fl. 65	29	0.50 A	30	1.80	6	3	Fl. 55.90
AMRO P	Fl. 60	71	5	24	6.30	–	–	Fl. 55.90
ELSEVIER C	Fl. 40	27	1.70	8	3	–	–	Fl. 37.60
ELSEVIER P	Fl. 60	101	23.20	–	–	–	–	Fl. 37.60
GIST-BROC. C	Fl. 50	125	0.10	–	–	–	–	Fl. 24
GIST-BROC. P	Fl. 25	3	2.40	22	4	16	4.70	Fl. 24
HEINEKEN C	Fl. 130	52	3	31	8.30	–	–	Fl. 117.90
HOOGOVENS C	Fl. 45	29	0.30	–	–	–	–	Fl. 25.40
HOOGOVENS P	Fl. 25	19	2.20	–	–	–	–	Fl. 25.40
KLM C	Fl. 25	–	–	62	4	–	–	Fl. 25.80
KLM P	Fl. 25	71	1.20	14	2.50	–	–	Fl. 25.80
NEDLLOYD C	Fl. 190	20	0.50	5	1.10	–	–	Fl. 110.50
NEDLLOYD P	Fl. 180	50	71	–	–	–	–	Fl. 110.50
NAT.NED. C	Fl. 55	500	0.40	–	–	–	–	Fl. 44.50
NAT.NED. P	Fl. 45	10	2.20	–	–	16	5	Fl. 44.50
PHILIPS C	Fl. 35	490	0.50	28	1.30	3	2.30	Fl. 28.40
PHILIPS P	Fl. 55	597	27	100	28	3	27.70	Fl. 28.40
ROYAL DUTCH C	Fl. 220	71	1.50	543	4.80 A	–	–	Fl. 194.80
ROYAL DUTCH P	Fl. 200	27	9	133	14	–	–	Fl. 194.80
ROBECO C	Fl. 85	20	1.80	–	–	–	–	Fl. 79.80
ROBECO P	Fl. 85	53	6.50	–	–	–	–	Fl. 79.80
UNILEVER C	Fl. 100	44	5	11	10.50	206	12.50 B	Fl. 99.20
UNILEVER P	Fl. 90	64	2.40	52	6.70 A	32	9	Fl. 99.20

TOTAL VOLUME IN CONTRACTS : 19,757

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	8½	● Charterhouse Bank	8½	Nat Bk. of Kuwait	8½
Adam & Company	8½	Citibank NA	8½	NatWestminster	8½
Allied Arab Bk	9	City Merchants Bank	8½	Northern Bank Ltd	8½
Allied Dunbar & Co	8½	Clydesdale Bank	8½	Norwich Gen. Trust	8½
Allied Irish Bank	8½	Comm.Bk.N.East	8½	PK Finans. Int(UK)	9
American Exp.Bk	8½	Consolidated Cred	8½	Provincial Trust Ltd	9½
Amro Bank	8½	Co-operative Bank	*8½	R. Raphael & Sons	8½
Henry Ansbacher	8½	Cyprus Popular Bk	8½	Roxburghe G'rantee	10½
ANZ Banking Group	8½	Duncan Lawrie	8½	Royal Bk of Scotland	8½
Associates Cap Corp	10	Equat'l TstC'p plc	9	Royal Trust Bank	8½
Authority Bank	8½	Exeter Trust Ltd	9	Smith & Williams Secs.	8½
Banco de Bilbao	8½	Financial & Gen. Sec.	9	Standard Chartered	8½
Bank Hapoalim	8½	First Nat. Fin. Corp.	10	TSB	8½
Bank Leumi (UK)	8½	First Nat. Sec. Ltd.	10	UDT Mortgage Exp	‡10.2
Bank Credit & Comm	8½	● Robert Fleming & Co.	8½	United Bk of Kuwait	8½
Bank of Cyprus	9	Robert Fraser & Ptnrs.	9½	United Mizrahi Bank	8½
Bank of Ireland	8½	Girobank	8½	Unity Trust Plc	8½
Bank of India	8½	Grindlays Bank	8½	Western Trust	8½
Bank of Scotland	8½	● Guinness Mahon	8½	Westpac Bank Corp.	8½
Banque Belge Ltd	8½	HFC Trust & Savings	8½	Whiteaway Laidlaw	9
Barclays Bank	8½	● Hambros Bank	8½	Yorkshire Bank	8½
Benchmark Tst Ltd	8½	Heritable & Gen Inv Bk	8½		
Beneficial Trust Ltd	10	● Hill Samuel	§8½		
Berliner Bank AG	8½	C. Hoare & Co.	8½		
Brit Bk of Mid East	8½	Hongkong & Shangh	8½		
● Brown Shipley	8½	Lloyds Bank	8½		
Business Mtge Tst	9	Meghraj Bank Ltd	8½		
CL Bank Nederland	8½	Midland Bank	8½		
Central Capital	8½	● Morgan Grenfell	8½		
Cayzer Ltd	8½	Mount Credit Cpn Ltd	8½		

● Members of the Accepting Houses Committee. * 7 day deposits 3.50% Savewise 6.16%. Top Tier-£2,500+ at 3 months' notice 7.81%. At call when £10,000+ remains deposited. ‡ Mortgage base rate. § Demand deposit 3.49%. Mortgage 10% - 10.25%

FT CROSSWORD No.6,504

SET BY VIXEN

ACROSS

1 A woolly from Wales? (8)
5 Firmly established as a growing concern (6)
9 An original thinker must be trendy - throw out otherwise (8)
10 Add salt at the proper time (6)
12 "Sole judge of truth, in endless — hurled" (Pope, Essay on Man) (5)
13 A nasty experience can make odd characters mean, right? (9)
14 The cover circumscribes the rogue, that's clear (6)
16 Union backing means people get a rise here (7)
19 Mixed in among relevant matter (7)
21 The page is to pound a braggart (6)
23 Rope comes to pieces - gets puts together again (9)
25 View taken of fish (5)
26 The medico in one Parisian street is wet (6)
27 A guy growing old but running (8)
28 Greek workers make allowances (6)
29 Deals he's organised reveal a lack of capital (8)

DOWN

1 Many a man, a leading journalist found, agreed (6)
2 Touching account of a falling back (9)
3 Private lodging will be provided with little hesitation (5)
4 Loved getting about a quarter decorated (7)
6 Plain individuals making implications (9)
7 A Scot dressed for the opera (5)
8 She may well be winning on points (8)
11 A bag, a rather large bag, containing a seaweed product (4)
15 Criticise backing a horse - so superior! (9)
17 Sale doing badly, close (9)
18 Give voice about a market that's causing some distress (8)
20 A beast of 51 and over (4)
21 Quietly serving men shave and get ready (7)
22 The way-out singer is supreme (6)
24 A crawler wanting firm support (5)
25 Confer, though it could be a drawback (5)

Solution to Puzzle No.6,503

CATHERINEWHEEL
ELCID HOSTILITY
CANTATA SAPIENT
ARIEL SUGARCANE
COLONISER RAPID
LESSONS BEGONIA
OVERSPILL AROSE
FINGERPAINTING

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

FT UNIT TRUST INFORMATION SERVICE

Scimitar Asset Management Ltd
8 Crosby Sq, London EC3A 6AQ 01-588 6993/4/5

Scimitar Global Gth Ac	25.4	27.1	+0.5	–
Do. Income	25.3	27.0	+0.5	0.19
Scimitar European Acc	19.0	20.3	—	–
Do. Income	19.0	20.3	—	0.11
Scimitar UK Eq Inc Acc	29.7	31.3	+0.4	–
Do. Income	28.5	30.0	+0.4	5.99
UK Cap Gth Acc	20.2	21.3	+0.3	0.75
Scimitar Pac Basin Acc	23.9	25.5	+0.3	–
Scimitar Mngd Exmpt*	126.7	132.0	+0.9	–

*Unauthorised.

Scottish Equitable Fund Mgrs. Ltd(z)
28 St Andrews Sq, Edinburgh 031-556 1051

Instl Income Units	116.4	123.8	–	3.08
Instl Accum Units	178.0	189.4	–	3.08
UK General Acc	33.6	35.9	-0.1	3.11
UK General Inc	32.3	34.5	-0.1	3.11
American	24.5	26.2	+0.7	0.64
European	32.6	34.9xd	+0.5	0.99
Japan	49.7	53.2xd	–	–
Technology	31.0	33.2	+0.3	1.42
Performance Trusts				
Far East Perf Tst	14.3	15.3	+0.2	0.64
High Inc Perf Tst Inc	21.1	22.6xd	+0.1	5.37
High Inc Perf Tst Acc	21.6	23.1xd	–	5.37
Worldwide Tech Perf Tst	24.1	25.8	+0.2	–

Scottish Life Investments(z)
29 St Andrew Sq, Edinburgh 031-225 2211

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Phoenix Assurance Co Ltd
Phoenix House, Redcliff Hill, Bristol 0272 294941

Life Assurance Funds				
Wealth Assur.	344.6	362.8	—	-
Eb'r Ph. Eq.	304.1	323.2	—	-
Pension Plan Funds				
Phoenix				
UK Equity Acc.	146.1	153.7	—	-
International Acc.	113.2	119.1	+1.1	-
Property Acc.	120.2	126.5	—	-
Fixed Interest Acc.	148.6	156.4	+0.6	-
Money Acc.	133.2	140.2	+0.1	-
Bldg. Soc. Link Acc.	131.1	137.9	—	-
Special Mnged. Acc.Q	133.0	139.9	+0.4	-
Phoenix/Framlington				
Intnl. Growth Acc.	70.3	73.9	+0.4	-
Amer & Gen. Acc.	63.3	66.6	−0.4	-
Capital Tst. Acc.	152.8	160.8	+1.5	-
Japan & Gen Acc	151.2	159.1	+3.3	-
American Turn. Acc	64.3	67.6	+0.2	-
Recovery Tst. Acc	136.3	143.4	+2.0	-
Special Mngd Acc	121.9	128.3	+0.9	-
Phoenix/GT				
International Acc.	106.2	111.7	+1.1	-
US & General Acc	75.4	79.3	+1.3	-
Amer Spec Sits Acc.	50.9	53.5	+0.7	-
Japan & General Acc	148.3	156.1	+2.1	-
Far East & Gen. Acc.	122.5	128.9	+2.2	-
UK Capital Acc.	142.7	150.2	+2.7	-
European Acc	117.8	124.0	−1.2	-
Special Mngd. Acc.	108.3	114.0	+1.2	-

Pioneer Mutual Insurance Co Ltd
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655

Managed Fund	248.6	261.7	+3.4	-
Max Pens Inc & Cap Fds.	313.8	330.4	+5.6	-
Money Fund	110.3	116.2	+0.2	-
Pens. Mngd Fd (Init)	73.9	77.8	−0.2	-
Pens Mngd Fd (Acc)	82.9	86.3	−0.2	-
Pens FT30 Fd (Init)	116.8	123.0	+4.1	-
Pens FT30 Fd (Acc)	129.5	136.4	+4.8	-
Pens O'seas MgFd(Init)	44.9	47.3	−2.9	-
Pens O'seas MgFd(Acc)	49.8	52.5	−3.1	-
Pens Fxd Int Fd (Init)	105.3	110.9	−1.1	-
Pens Fxd Int Fd (Acc)	116.8	123.0	−1.0	-
Pens Deposit Fd (Init)	100.3	105.6	—	-
Pens Deposit Fd (Acc)	111.3	117.2	+0.2	-

Premium Life Assurance Co Ltd
Eastchester House, Haywards Heath 0444 458721

American	73.0	77.0	—	-
Building Soc. Fd.	156.0	165.0	—	-
Balanced	209.0	220.0	+1.0	-
Deposit	156.0	165.0	—	-
European	108.0	114.0	−1.0	-
GT Managed	129.0	136.0	+1.0	-
Gartmore Mngd	87.0	92.0	+1.0	-
Germany	93.0	98.0	—	-
Gilt	157.0	166.0	—	-
High Inc.	113.0	119.0	—	-
International Equity	135.0	143.0	+1.0	-

Prudential Assurance Co
Holborn Bars, London EC1N 2NH 01-405 9222

Prufund				
Managed Dec 02	180.6	188.2	—	-

Prudential Holborn Life Ltd
Portland Hse, Stag Place, Ldn SW1E 5BH 01-630 1661

Managed Fd.	400.6	421.7	+2.1	-
Equity Fd.	799.0	841.1	+2.3	-
Intnl. Fd.	278.9	293.6	+4.5	-
Fixed Int. Fd.	352.9	371.5	+0.6	-
Prop. Fd.	296.1	311.7	+0.1	-
Cash Fd.	231.7	243.9	—	-
Pacific Basin Fd.	153.5	161.6	+0.2	-
North American Fd.	108.4	114.2	+3.5	-
European Fd.	131.0	137.9	+0.7	-
Holborn Balanced Gwth Fd	-	-	—	-
Holborn Strategic Gwth Fd	-	-	—	-

Prudential Holborn Pensions Ltd
Portland Hse, Stag Place, Ldn SW1E 5BH 01-630 1661

Managed	423.7	446.1	+1.8	-
Equity	590.0	621.1	+1.3	-
Global Equity	171.0	180.1	+1.5	-
Fixed Interest	361.5	380.6	+0.6	-
Property	296.9	312.6	—	-
Cash	135.5	142.7	—	-
Index Linked Gilt	161.5	170.1	+1.4	-
Guaranteed	9.25	10.25	—	-
International Money	182.7	192.4	−0.1	-
North American Fd	50.2	52.9	—	-
Japanese Fund	98.19	103.5	—	-
European Fund	68.5	72.2	—	-
Special Situations Fd	79.2	83.4	—	-
Communications Fund	68.4	72.0	—	-
Smaller Cos Fund	81.7	86.0	—	-

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

1987 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
		"Shorts" (Lives up to Five Years)				
99¾	97⅞	Treas 7¾pc 1985–88‡‡	99⅞		7.76	8.48
102¼	99⅝	Exch 10½pc '88	100⅝		10.41	8.37
101⅞	98⅞	Treas 9¾pc Cv '88	100⅝xd		9.69	8.40
98¼	93¾	Transport 3pc '78–88	97⅞xd		3.07	6.97
101⅝	98¼	Treas. 9½pc '88	100⅝		9.43	8.58
105⅞	101⅛	Treas 11½pc 1989	103⅛	+⅛	11.16	8.68
102⅞	97⅞	Treas 9½pc Cnv 1989	101⅛		9.40	8.63
96⅛	89¼	Treas 3pc 1989	95⅛	+⅛	3.14	6.25
104⅛	99⅞	Treas 10½pc 1989	102⅝xd	+⅛	10.24	8.65
103⅞	98⅛	Exch 10pc 1989	101⅞	+⅛	9.82	8.72
105⅞	100⅞	Exch 11pc 1989	103⅝	–⅛	10.61	8.72
96⅛	89⅞	Treas 5pc 1986–89	95⅝		5.22	7.48
108¼	99⅝	Exch 10¼pcCv '89	103⅝	–⅛	9.89	8.13
111⅞	104⅝	Treas 13pc 1990‡‡	107⅝xd	+⅛	12.04	8.78
106⅛	100⅞	Exch 11pc 1990‡‡	104⅛	+⅛	10.56	8.85
110⅞	103⅛	Exch. 12½pc 1990	107⅝	+⅛	11.64	8.82
92⅞	84¼	Treas. 3pc 1990	91⅝	–⅛	3.27	6.80
100⅞	93⅞	Treas 8¼pc 1987–90‡‡	99⅛xd	+⅛	8.31	8.56
105	97½	Treas. 10pcCv 1990	102⅝	+⅛	9.72	8.84
91⅞	81⅞	Exch 2½pc 1990	89⅞	–⅛	2.80	6.51
110⅛	102⅞	Treas 11¾pc 1991	107⅝xd	+⅛	10.92	8.87
95⅞	87¼	Funding 5¾pc '87–91‡‡	93⅝		6.15	7.99
90⅞	80¼	Treas. 3pc 1991	88⅞	–⅛	3.39	6.80
110⅛	98¼	Treas 10pc Cv '91 ‡‡	104⅛xd		9.58	8.56
109⅛	101⅞	Exch. 11pc 1991	106⅝	+⅛	10.30	8.87
99	91⅞	Treas. 8pc 1991	97⅛xd	+⅛	8.25	8.62
116⅞	107⅞	Treas 12¾pc 1992‡‡	112⅞	+⅛	11.30	8.92
106⅞	97⅞	Treas 10pc 1992	103⅝	+⅛	9.64	8.90
99½	90⅞	Treas. 8pc 1992 ‡‡	97⅛	+⅛	8.25	8.83
108⅞	99½	Treas 10½pc Cv 1992‡‡	105⅝	+⅛	9.95	8.95
86⅞	79⅞	Treas. 3pc 1992	85xd		3.74	8.03
115⅞	105⅞	Exch. 12¼pc '92	111⅞	+⅛	10.96	9.09
121⅞	110⅞	Exch 13½pc 1992	116⅞	+⅛	11.58	9.13

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS – Contd

Undated

1987 High	Low	Stock	Price £	+ or –	Yield Int.
45⅝	39⅞	Consols 4pc	43⅛		9.38
41⅞	34⅞	War Loan 3½pc‡‡	38⅞	+⅛	9.05
52⅛	46½	Conv. 3½pc '61 Aft	50¼		7.00
34⅞	29⅞	Treas. 3pc '66 Aft	32⅝	+⅛	9.22
29⅞	24⅞	Consols 2½pc	27⅛xd		9.26
29⅞	24⅞	Treas. 2½pc	27⅛		9.30

Index–Linked

(1) (2)

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, ie 8 months prior to issue. RPI for March 1987:100.6 and for October 1987: 102.9 (rebased at 100 January 1987 conversion factor 3.945).

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS – Contd

1987 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
39	21½	Rep NY Corpn $5	22	–¼	$1.16	–	2.9
18¾	8⅞	Rockwell Intl. $1	9⅛	–⅛	66c	–	4.0
30⅞	16¼	Sara Lee $1(1/3)	18xd	–⅛	$1.00	–	3.0
11⅞	8⅞	Saul (B. F.) $1	8⅞	–⅛	20c	–	1.2
27½	2¾	Southwestern Bell $1	18¾		h$2.32	–	6.8
22⅞	994p	Staley Continental	11	–¼	80c	–	4.0
44⅞	21⅝	Sun Co. Inc. $1	28⅛	+1¼	$3.00	–	5.8
42¼	22⅞	TRW Inc. $0.625	24½xd	+1¼	h$1.60	–	3.6
37⅜	21⅞	Tenneco $5	23⅛xd	+⅝	$3.04	–	7.2
220	149½	Do. 10pcLn.Stk. 92–5	155xd		10%	–	14.7
29⅝	15⅞	Texaco $6.25	18⅝xd	+¼	$3.00	–	8.8
74⅞	36⅞	Time Inc. $1	38⅝xd	+1⅞	$1.00	–	1.4
20⅞	11	Tracor $0.33(1/3)	17½xd	–¼	40c	–	1.3
30¾	15⅞	Transamerica $1	16⅞xd	+1¼	$1.84	–	6.0
14⅝	1¾	Transworld Corp $5	637p	+46	20c	–	1.7
27⅞	12¾	TRINOVA Corp	16¼	+⅞	56c	–	1.9
24⅞	12⅝	USX $1	16⅞	+⅜	$1.20	–	4.1
19⅝	9⅞	Union Carbide $1	10⅝xd	+¼	$1.50	–	7.7
37¼	16¾	Utd. Technologies	18⅛xd	+1⅛	$1.40	–	4.2
38⅝	26½	US West	27⅝	+¼	$3.28	–	6.5
30½	17⅞	Waste Management $1	18⅞	+⅝	–	–	–
31⅞	11⅞	Whirlpool $1.0	12⅝	+⅜	–	–	–
37⅞	16½	Woolworth $3½	18⅝	+⅜	$1.32	–	3.9

CANADIANS

1987 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
691p	227p	ASM Gold Corp	295p		–	–	–
26½p	10p	Abbox Energy Corp	17p	–3½	–	–	–
18⅞	506p	Amer. Barrick Res.	11		–	–	–
141p	6p	American Lightwave	6½p	+½	–	–	–
122p	33p	Armeno	38½p		–	–	–
117p	39½p	Augmitto Expln.	45p		–	–	–
19⅞	10⅝	Bk. Montreal	11½xd	–⅛	$2.00	–	7.6
10⅛	488p	Bk. Nova Scot.	545p	+3	72c	–	5.8
20⅝	15	BCE	15¾	+¼	$2.40	–	6.7
10⅝	511p	Bow Valley	580p	+38	40c	–	3.0
20	10¼	Brascan	10½		88c	–	3.7
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES – Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LONDON SHARE SERVICE

INSURANCES — Contd

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
516	300	Pearl Group 5p	339	+1	†10.5	–	4.2	–
*£11¼	733	Prudential	788	+18	†29.0	–	5.0	–
598	358	Refuge 5p	373		15.75	–	5.8	–
595	345	Royal	373	+4	††15.5	–	5.7	–
110	75	Sabre Ins. Inv.	75		–	–	–	–
*345	168	Sedgwick Group 10p	189	–1	12.0	1.7	8.7	8.1
339	138	Steel Burrill J.10p	140		†9.0	2.0	8.8	7.8
612	303	Stenge Hldgs 20p	325		†6.0	2.5	2.5	21.3
£12¾	645	Sun Alliance	778	+5	†23.5	–	4.2	–
£13	865	Sun Life 5p	898		†28.5	–	4.4	–
£69¾	£36¼	♦Taisho M EDR	£42¼	–¼	Q10%	–	1.0	–
£22¼	£12¾	Torchmark $1.00	£13¼	+¼	Q$1.08	–	4.3	–
410	235	Trade Indemnity	357		†4.3	–	1.6	–
£34	£27¼	Travelers $1.25	£28¼	+¼	$2.28	–	6.9	–
£30¼	£16	USF & G Corp $2.50	£16¾	+¾	Q$2.48	–	8.2	–
£33¾	£15¾	USLIFE Corp. $1.0	£15¾	–¾	Q$1.28	3.2	4.5	6.9
738	555	♦Utd Friendly B 10p	578		21.0	–	5.0	–
464	202	Willis Faber 12½p	218	–7	†10.75	2.4	7.0	8.0
128	41	Windsor Secs. 10p	68		†0.7	1.5	1.6	–

LEISURE

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
35½	20	♦A & M Group 10p	23		–	–	–	–
242	83	Airtours 10p	83		L65.4	♦	9.5	♦
*549	253	Anglia TV	256		†g11.25	3.3	6.0	7.1
194	77	♦Aspinall Hldgs. 10p	140		†6.0	1.2	5.1	21.9
141	62	♦Avesco 1p	72	–4	0.5	6.7	1.0	20.3
72	40	♦BCE Hldgs 5p	48		L40.0	♦	2.9	♦
300	132	Barr & W.A.T. 'A'	195		†8.0	2.4	5.6	15.9
98	22	Boat Media	24		–	–	–	–
235	165	Boosey & Hawkes	170		–	–	–	–
83	28	♦Border T.V.	41	–1	1.4	♦	4.7	♦
*439	134½	Brent Walker 10p	259		†8.5	2.2	5.3	12.5

[illegible]

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING — Contd

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES — Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND — Contd

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS — Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

Teas

[illegible]

MINES

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

[illegible]

MINES — Contd

Tins

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

[illegible]

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

IRISH

[illegible]

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

Oils

Mines

[illegible]

A selection of Options traded is given on the London Stock Exchange Report Page

LONDON STOCK EXCHANGE

Account Dealing Dates

*First Dealings	Option Declarations	Last Dealings	Account Day
Nov 23	Dec 3	Dec 4	Dec 14
Dec 7	Dec 17	Dec 18	Jan 4
Dec 21	*Jan 7*	*Jan 8*	*Jan 18*

*New time dealings may take place from 9.00 am two business days earlier.

Sears features strongly in firm equities sector while Gilt-edged remain quiet

THE UK STOCK market continued to move higher yesterday as the City braced itself for the October trade figures from the US, which are due today. The blue chip exporting stocks were restrained at first when the pound again moved above $1.80, but gathered confidence towards the close as Wall Street and the New York bond market advanced. But turnover, now lacking the speculative contribution from Britoil shares, was unexciting.

Government bonds moved very narrowly, with trading houses keeping a tight rein on positions ahead of the trade figures due from across the Atlantic at 1.30pm today, London time. Small gains, reflecting the pound's firmness were held at the end of the session, when the long dates were ¼ up, and the nearer dates around 1/16 higher. Index-linked issues ended little changed on the day after recouping minor losses.

London analysts look for a small increase in the US trade deficit to around $14.6bn, although some estimates ranged as high as a $16bn deficit.

Equities opened sharply higher in response to Wall Street's overnight strength, but prices soon topped off as the dollar's early downturn pushed the pound up to levels uncomfortably high for Britain's exporters. However, share prices began to climb in late afternoon when the New York market displayed confidence in the prospects for today's trade figures announcement.

Today also brings the November trade figures from Japan, while the end of this week will be featured by the latest UK retail prices statistics..

Mr Ian Harwood, economic analyst at Warburg Securities, comments in his latest review of economic indicators that, while UK retail sales are expected to be up again in November, "worries about a retrenchment after Christmas are likely to persist". However, he believes that the December survey from the Confederation of British Industry will be "quite upbeat".

The final reading on the FT-SE 100 Index showed a net gain of 14.9 points at 1639.3, the best of the day. This is still comfortably inside the trading range of 1500 - 1730 now assumed by the market.

There was little immediate response from oil shares as the Opec meeting opened discussions on crude pricing. The backwash of BP's aggressive move into Britoil stock kept the sector alert, however.

Tax loss deals, in which blocks of shares are sold on one day and repurchased the next, again featured the market. The list of major trades yesterday featured such major names as **Guinness, Rolls-Royce, Ferranti, Unigate** and **Tarmac**, all of which were sold on Tuesday, while a large deal in **Racal** indicated that the electronics group had joined the tax loss list.

"Most major trading firms have done a fair amount of tax-loss business ever since the market started to steady from the Black Monday setback", commented Mr Tim Brown, equity sales head at Phillips & Drew.

Sears, the major UK retail group in which Bell Group, Mr Holmes a Court's investment vehicle holds an 8.8 per cent stake, jumped 15 at 148½p in heavy turnover after Bell shareholders were told that further asset sales of A$600m are planned. London believes that speculators are building stakes in Sears, which could be propelled into the takeover arena if the Bell stake comes on offer - Hanson's name was suggested at first but later discarded.

Turnover totalled 37m shares, as rumours circulated in London that Mr a Court has refused an offer, first of 140p, and then of 160p a share for his Sears stake.

But Mr a Court's insistence at the shareholders' meeting that he would not sell his near-15 per cent stake in **Standard Chartered** left the shares unchanged at 30p, after one large share deal went through the marketplace. **Dewey Warren,** the Lloyds broker 42 per cent held by Bell, showed little change at 98p.

Britoil remained in the limelight after BP's dawn raid on Tuesday to acquire a 14,9 per cent stake and the subsequent tender offer for a further 76m shares to increase its stake to 29.9 per cent. Britoil's share price opened lower at 272p and thereafter moved narrowly prior to closing a net 11 down at 274p after a turnover of 19m shares; turnover included a single deal of 1.5m at 272p.

Dealers in the shares reported persistent profit-taking in Britoil and said that there was little sign of any heavy speculative support following suggestions of a possible counter to BP's move by British gas. Traders also expressed scepticism over stories that the Government would cancel its bid-proof "golden share" in Britoil -"after the BP share sale-fiasco that would look like blackmail".

BP shares crept higher in what was generally thin business for much of the day before building up towards towards the close. The "new", bid up to 74p early in the day, fell later to close a net ½ off at 72½p with turnover topping the 20m mark -including a single block of 7.5m shares - which were thought to have gone to the Kuwait Investment Office.

BP "old" were well bid and eventually closed a net 4 higher at 249p, with turnover expanding rapidly late in the session to settle around the 3.8m level.

Amersham, one of the privatisation issues, featured with a rise of 13 at 379p in the wake of a revival of takeover hopes.

As in Britoil, the UK Government has retained a golden share in Amersham and any bid would require the assent of the authorities. However, the possibility that British Petroleum might be allowed to make a full bid for Britoil enlivened interest in Amersham. **Tesco** provided a weak feature in the Food Retailing sector, falling to 148p at one stage prior to closing a net 5 down at 151p as securities house Phillips and Drew downgraded its profits estimate for the year ending February 1989 by some £10m.

P & D's revised forecast apparently only brings it into line with other analysts' estimates for the period.

ASDA-MFI, the multi-faceted retailing group, shaded to 158p prior to closing a couple of pence cheaper on balance at 159p on news that the company had decided to retain the Allied business as part of the ASDA group.

Originally, the company had proposed to sell off MFI, Allied and the dairy division of Associated Fresh Food. The sale of MFI and AFF have been, according to the company, satisfactorarily completed, but the decision to keep Allied has been taken " in the light of the recent instability of the stock market".

Plessey shares performed "disappointingly" according to traders after talk that at least two more leading securities houses had upgraded their profits forecasts for 1988/9.

The share price eased 2 to 137p on a turnover of 1.7m. Wood Mackenzie has upped its profits forecast by £20m to £215m, and says the increase "stems largely from projected cost-savongs omn the telecoms joint venture with GEC." Phillips and Drew were believed to have upped their profits forecast from £190m to £205m and Chase Manhattan to £230m.

BICC, one of the better performers in the electricals sector in the past few weeks, came under persistent selling pressure to close a net 20 lower at 314p with turnover expanding to 2.8m shares.

Market rumours of a profits downgrading by broker James Capel were wide of the mark and it emerged that US securities house Chase Manhattan Securities' analyst Richard Dyett had advised Chase clients that BICC shares "had run ahead of the game by moving into the 330's level, and ceased to have defensive qualities at that sort of price."

Banks were mixed and turnover generally no more than routine. Profit-taking after the recent strong buying interest left **Barclays** 4 lower at 445p but **Midland** moved ahead 4 to 362p and **NatWest** 6 to 533p.

Standard Chartered raced up 23 to 463p - turnover of 893,000 was mostly represented by a single buying order of 400,000 shares.

Merchant banks were a shade easier- **Kleinworts** fell 4 to 299p and **Morgan Grenfell** 5 to 215p.

Life assurances made good progress with **Abbey** advancing 8 to 228p, **Legal and General** - where BZW were again strong buyers - closed 10 higher at 250p and **Prudential** 18 better at 788p.

Turnover in **Commercial Union** remained at a relatively high level of 2.8m and the shares attracted a good two-way pull which left the quotation a net 4 higher at 322p, after 325p. Stories of stake-building operations by "down-under" sources - John Spalvins' Adsteam is believed to have a near 5 per cent stake and Robert Holmes a Court cannot be dismissed as a possible buyer dealers said- are still doing the rounds.

General Accident jumped 10 more to 785p and **Guardian Royal Exchange** 20 to 775p.

Market rumours of a profits downgrading in the region of £10m for **Sedgwick Group** left the shares a shade off at 188p. **Willis Faber,** still disturbed by recent stories concerning staff defections, fell 6 to 211p.

Interest in the Brewery sector remained at a relatively low ebb, but occasional support was forthcoming for **Bass,** 8 to the good at 783p, and **Guinness,** 4 better at 271p. Elsewhere, **H.P. Bulmer,** reflecting disappointment with the half-year figures, eased 3 to 141p.

Reports that British construction output this year is expected to grow almost twice as fast as any other leading European country provided an additional stimulus for the Building sector. Prices made reasonable headway with **Tarmac** rising 9 to 208p following a trade of some 6.2m shares, 3.9m of which reportedly related to Tuesday's bed and breakfast deal. **Redland,** a firm market on Tuesday on speculation about the possible benefits of a deal with Equiticorp concerning its Australian subsidiary Monier - discussions are currently underway in Australia - saw Redland rise a further 6 to 389p, a two-day rise of 24. **Blue Circle,** currently bidding 300p per share for Birmid Qualcast, managed an improvement of a couple of pence at 304p, while **Steetley,** helped by an impressive set of annual figures from fellow brick concern **Baggeridge,** gained 5 to 210p; the latter responded to near doubled preliminary profits with a gain of 5 at 215p. **Tyson (Contractors)** revived strongly in the wake of the change of control and cash injection and rallied 12 to 48p.

ICI attracted late support on hopes of a further strong recovery on Wall Street and the close was 1/16 higher on balance at £10 1/16. **BTP** firmed 2 to 122p following excellent results.

Apart from the Sears activity, business in the rest of the stores sector also remained at a high level. **Harris Queensway** were a lone casualty among the leaders and dropped 6 to 108p, after 105p, after Sir Phil Harris was believed to have told sector analysts that profits for the group would be lower than forecast.

Dixons, again strongly supported by Wood Mackenzie, jumped 7 to 207p, **Next,** another Wood Mac favourite, added 9 at 269p and **Woolworths** put on 8 to 261p.

Mail order firms made good progress led by **Empire Stores** which moved up 7 to 236p. **Freemans** added 4 at 167p.

Thorn EMI initially dipped back to 538p on profit-taking but picked up strongly late in the day to close 8½ higher on balance at 552p ahead of today's interim figures - Warburg Securities are going for £58m pre-tax.

Cable & Wireless eased a shade to 315p after the postponed share sale of Hong Kong Telecommunications. **GEC** dipped 3 to 155p and **Racal** 2½ to 214½p - a 5m shares transaction in the SEAQ system around midday was in error and later correctedto one of 5,000 shares. **United Scientific** rose 5 to 201p after the interim results.

Engineers provided the occasional noteworthy movement. **McKechnie,** still reflecting buying on yield considerations, advanced 12 more to 277p. **Howden,** an old takeover favourite, improved 5 to 71p. **Westland,** scheduled to announce preliminary figures today, improved 4 to 79p.

Cadbury Schweppes attracted support as General Cinemas bid rumours resurfaced and the close was 8 higher at 237p. **Tate and Lyle** hardened 4 to 669p and **Dalgety** improved 5 to 285p. **Northern Foods,** however, shed 9 more to 242p, a two-day fall of 22, reflecting disappointing half-year figures and the subsequent negative analysts' meeting. **United Biscuits** attracted occasional buying interest and firmed 7 to 255p and **Hillsdown** added 3 to 250p. Among second-line stocks, **Carrs Milling** gained 32 to 182p in reply to good annual results and a confident statement, but **Bernard Matthews** came on offer late following the company's profits warning and closed 13 down at 88p.

Leading Hotels showed little alteration, but secondary issues were featured by **Stakis** which firmed 4 to 79p, after 80p, following pleasing annual figures.

Oil and gas issues made further progress in the wake of the Britoil/BP story and tended to shrug off worries about crude oil prices. **Enterprise** added 7 at 237p after the North Sea acreage deal - regarded as positive by oil analysts - while **LASMO** jumped 13 more to 250p on a general view that the company is the next likely bid candidate in the sector. **Calor,** said by dealers to be a possible target for Hanson, rose 10 to 440p.

International stocks passed an uneventful trading session with most quotations closing showing little alteration on the day. However, **Boots** managed a rise of 3 at 223p in line with a firm performance in the Store sector. **Reed International** also continued firmly, hardening 4 further to 369p.

Elsewhere, **Avon Rubber** were outstanding at 553p, up 45p, in response to the bumper preliminary figures. **Smith and Nephew,** in contrast, dipped 9 to 135p as the market registered disappointment with the annual results. Some of the old speculative favourites came to life, with **Portals** advancing 12 to 220p. **Pearson,** in which Rupert Murdoch holds a near 15 per cent stake, improved 5 to 635p. **Havelock Europa** moved up 8 to 283p in response to the incresed interim dividend and profits, while **British Aerospace** hardened to 318p on confirmation of the TNT order for civil aircraft.

Further consideration of the preliminary figures prompted fresh demand for **Carlton Communications** which put on 12 more to 615p. **VPI** also continued to reflect trading news and advanced 10 further to 248p. **Maxwell Communications** closed unaltered at 206pp in the wake of the company's announcement that it is not pursuing its takeover offer for Bell and Howell of the US.

Smith New Court, the securities house, reacted 10 to 193p in the late dealings; the interim figures are scheduled to be announced today.

Traded option business was reduced. A total of 27,932 contracts was made up of 12,458 calls and 15,474 puts. The **FTSE** contract contributed just 537 calls and 739 puts. **British Gas** puts were active at 7,221 and **Hanson** puts totalled 1,686p. **Sears** calls amounted to 1,213 amid stake speculation; Sears puts were 343.

Traditional Options

- **First dealings Nov 30 5**
- **Last dealings Dec 11**
- **Last declarations Mar 3**
- **For Settlement Mar 14**

For rate indications see end of London Share Service

Call options were taken out in **Hanson Trust, Ferranti, Barclays Bank, Lloyds Bank, Trimoco, Hawtin, Bernard Matthews, Senior Engineering, Birmid Qualcast, London Investment Trust** and **Amstrad.** No put or double options were reported.

FINANCIAL TIMES STOCK INDICES

	Dec. 9	Dec. 8	Dec. 7	Nov. 4	Dec. 3	Year Ago	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs	89.17	89.08	89.04	89.58	89.97	81.64	93.32 (8/5)	83.73 (19/10)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	96.49	96.59	96.75	96.60	96.85	88.64	99.12 (15/6)	90.23 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1297.6	1294.9	1279.3	1262.7	1263.6	1285.5	1926.2 (16/7)	1232.0 (9/11)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	324.8	317.3	313.2	329.4	337.0	312.6	497.5 (4/8)	261.6 (6/11)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.78	4.81	4.87	4.93	4.91	4.46				
Earnings Yld. %(full)	11.85	11.89	12.05	12.21	12.15	10.49				
P/E Ratio (net)(*)	10.33	10.28	10.14	10.01	10.06	11.71				
SEAQ Bargains (5pm)	21,136	23,382	20,542	26,389	23,323	31,309				
Equity Turnover (£m)	-	1239.91	646.07	1036.58	875.86	1212.01				
Equity Bargains	-	25,024	21,438	28,957	22,842	60,696				
Shares Traded (ml)	-	644.5	935.7	568.1	467.7	673.2				

S.E ACTIVITY

Indices	Dec.8	Dec.7
Gilt Edged Bargains	127.1	144.4
Equity Bargains	162.1	138.9
Equity Value	2506.2	1305.9
5-Day average		
Gilt Edged Bargains	136.4	135.3
Equity Bargains	158.4	162.6
Equity Value	1943.5	1753.7

♥ Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
-	1296.1	1292.4	1293.7	1291.2	1291.7	1290.7	1292.2

Day's High 1301.7 Day's low 1290.1

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, S E Activity 1974, * Nil=10.18.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-246 8026

NEW HIGHS AND LOWS FOR 1987

NEW HIGHS (2).
STORES (1) Allebone 8¾pc. Cnv. Cum. Red. Prf., INDUSTRIALS (1) Mallcap Corp.

NEW LOWS (63).
INT.BANK & O'SEAS GOVT. STLG. ISSUES (1) AMERICANS (16) CANADIANS (1) BANKS (1) BREWERS (1) CHEMICALS (1) STORES (3) ELECTRICALS (9) ENGINEERING (1) FOODS (2) INDUSTRIALS (6) INSURANCE (2) LEISURE (1) NEWSPAPERS (1) PAPERS (3) PROPERTY (2) TRUSTS (5) OILS (3) OVERSEAS TRADERS (1) MINES (2) THIRD MARKET (1).

FT – ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS — Wednesday December 9 1987

[illegible]

FIXED INTEREST

[illegible]

LONDON TRADED OPTIONS

[illegible]

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	75	19	21
Corporations, Dominion and Foreign Bonds	15	9	29
Industrials	444	339	774
Financial and Properties	193	87	349
Oils	28	23	59
Plantations	3	1	10
Mines	74	36	88
Others	89	54	103
Totals	921	568	1,433

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

WORLD STOCK MARKETS

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

FINLAND

FRANCE

GERMANY

ITALY

NETHERLANDS

NORWAY

SPAIN

SWEDEN

SWITZERLAND

SOUTH AFRICA

AUSTRALIA

HONG KONG

SINGAPORE

JAPAN

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. (a) unavailable. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Kroner

CANADA

TORONTO
Closing prices December 9

Sales	Stock	High	Low	Close	Chng
22855	Ulster P	205	195	195	−5
100	Un Carbid	$13¾	13¾	13¾	−¼
1700	U Entprise	$9	8¾	9	+¼
15630	U Canso	65	65	65	
645	Un Corp	$38	37	37	+2
3200	Vulcan Ind	190	190	190	−5
500	Walax A	$10	9⅝	9⅝	−⅜
106274	Wcoast T	$15¾	15⅝	15⅝	
4535	Westmin	$8¾	8⅝	8⅝	−⅛
2700	Weston	$32	31¾	32	+¼
4449	Woodwd A	$5½	5¼	5½	+⅜

F — No voting rights or restricted voting rights.

MONTREAL
Closing prices December 9

Sales	Stock	High	Low	Close	Chng
43344	Bank Mont	$27¼	26⅞	27	−⅛
7250	BombrdrA	$08	07¾	08	+½
30653	BombrdrB	$07⅞	07¾	07¾	
69108	Cascades	$05¾	05¼	05⅝	+⅛
16834	ConBath	$16¼	15⅞	16¼	+¼
2201	DomTxtA	$16¼	16	16⅛	+¼
50	MntTrst	$12⅛	12⅛	12⅛	
153387	NatBk Cda	$11⅝	11	11½	+½
3820	Noverco	$11	10⅞	10⅞	−⅛
107710	Power Corp	$13⅝	13¼	13½	+¼
28450	Provigo	$07⅝	07⅜	07⅝	+⅜
8400	Repap Entr	$11½	11	11¼	+¼
300	RollandA	$10¼	10¼	10¼	−⅛
23698	Royal Bank	$28⅝	28¼	28⅝	+⅛
650	SteinbrgA	$27½	27½	27½	+⅛
11255	Videotron	$08⅝	08⅛	08⅛	−½

Total Sales 6,467,007 shares

OVER-THE-COUNTER *Nasdaq national market, 2.30pm prices*

Continued from Page 39

Stock	Sales (Hnds)	High	Low	Last	Chng
Wyse	11 2160	18⅛	16½	18⅛	+1½
X Y Z					
XOMA	72	10½	10	10½	+¼
Xicor	100 245	7¼	6⅝	7	+⅜
Xidex	459	6¼	6⅛	6¼	+⅛
Xylogic	9 30	9¼	8¾	9¼	+½
Xyvsn	16 123	6¼	6	6¼	+¼
YlowFs .62	18 1505	24⅝	23⅞	24⅝	+½
ZionUt 1.44	18	24½	23¾	23¾	−¾
Zondvn	121	9⅝	9	9⅛	−⅛
Zycad	328	3	2¾	2⅞	+⅛

LONDON Chief price changes (in pence unless otherwise indicated)

RISES

Avon Rubber	553	+	45
Carlton Comms.	615	+	12
Carr's Milling	182	+	32
Dixons Group	207	+	7
Havelock Europa	283	+	8
ICI	£10⅝	+	¹⁄₁₆
MEPC	429	+	19
McKechnie	277	+	12
Sears	148½	+	15½
Slough Estates	233	+	14
Standard Chartered	463	+	23
Steetley	269	+	8
VPI Group	248	+	10

FALLS

BICC	314	−	20
Matthews (B.)	88	−	13
Northern Foods	242	−	9
Smith & Nephew	135	−	9
Willis Faber	210	−	7

TOKYO - Most Active Stocks
Wednesday December 9 1987

	Stocks Traded	Closing Prices	Change on day
Kawasaki Steel	40.23m	357	+1
Nippon Steel	21.09m	419	-6
Japan Synthetic Rubber	19.42m	870	+22
Nisshin Steel	14.50m	615	-15
Hitachi	11.57m	1,200	-20
Ishikawajima-Harima Heavy Inds	9.99m	630	Unch
Tokico	9.96m	710	+30
Clarion	9.36m	920	+43
Toray	8.21m	765	-13
Nissan Motor	7.58m	749	+25

Indices

NEW YORK — DOW JONES

	Dec. 8	Dec. 7	Dec. 4	Dec. 3	1987 High	1987 Low	Since compilation High	Since compilation Low
♦Industrials	1868.37	1812.17	1766.74	1776.53	2722.42 (25/8)	1738.42 (19/10)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	86.63	86.74	86.85	86.60	95.51 (9/2)	81.26 (19/10)	—	—
Transport	699.86	683.14	661.98	673.57	1101.16 (14/8)	661.00 (4/12)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	177.34	175.73	173.13	173.72	227.83 (22/1)	160.98 (19/10)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 1870.69 (1818.14) Low 1794.60 (1765.75)

STANDARD AND POOR'S	Dec. 8	Dec. 7	Dec. 4	Dec. 3	1987 High	1987 Low	Since compilation High	Since compilation Low
Composite ‡	234.91	228.76	223.92	225.21	336.77 (25/8)	223.92 (4/12)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	269.87	261.95	255.43	256.89	393.17 (25/8)	255.43 (4/12)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	20.75	20.39	20.46	20.47	32.43 (25/8)	20.39 (7/12)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	131.42	128.23	125.91	127.01	187.99 (25/8)	125.91 (4/12)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. value	236.57	233.03	231.90	236.56	365.01 (13/8)	231.90 (4/12)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	297.96	294.77	292.92	298.75	455.28 (26/8)	291.90 (28/10)	455.28 (26/8/87)	54.87 (31/10/72)

	Dec. 4	Nov. 27	Nov. 20	year ago (approx.)
Dow Industrial Div. Yield	3.88	3.59	3.58	3.58

	Dec. 2	Nov. 25	Nov. 18	year ago (approx.)
S & P Industrial div. yield	3.86	3.69	3.14	2.96
S & P P/E ratio	14.73	15.34	15.52	17.73

TRADING ACTIVITY † Volume

Millions	Dec. 8	Dec. 7	Dec. 4
New York	228.060	147.545	185.861
Amex	13.330	11.950	11.270
OTC	137.734	118.329	136.529

NEW YORK	Dec. 8	Dec. 7	Dec. 4
Issues Traded	1,978	1,992	1,993
Rises	1,142	902	352
Falls	465	703	1,298
Unchanged	371	387	343
New Highs	1	2	0
New Lows	131	200	280

CANADA

TORONTO	Dec. 8	Dec. 7	Dec. 4	Dec. 3	1987 High	1987 Low
Metals & Minerals	2464.8	2371.7	2279.2	2325.6	3507.5 (5/10)	1980.2 (2/1)
Composite	3050.6	2982.5	2900.2	2948.4	4112.9 (13/8)	2843.9 (10/11)
MONTREAL Portfolio	1542.72	1495.84	1443.81	1458.33	2224.77 (16/7)	1435.94 (26/10)

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Pac Gas & Elect	7,111,500	17½	−⅛
McDermott	5,172,100	15⅝	−⅛
New England	4,258,700	22¾	+½
Philip Morris	2,430,800	90	+3⅝
Chemical NY	2,274,800	24⅝	+½
General Electric	1,819,000	42⅝	+¾
Navistar	1,756,100	3⅞	....
Eastman Kodak	1,617,500	46½	+1⅞
Chrysler	1,570,200	21⅞	+¾
IBM	1,548,100	111½	+2

Base values of all indices are 100 except NYSE All Common — 50; Standard and Poor's — 10; and Toronto Composite and Metals — 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 transports. (c) Closed.(u) Unavailable.

	Dec. 9	Dec. 8	Dec. 7	Dec. 4	1987 High	1987 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1237.9	1219.4	1231.5	1247.2	2305.9 (21/9)	1151.0 (11/11)
All Mining (1/1/80)	722.8	695.7	711.3	729.8	1462.4 (14/10)	586.9 (11/11)
AUSTRIA						
Credit Aktien (30/12/84)	176.70	(c)	177.44	177.33	232.19 (22/9)	172.01 (11/11)
BELGIUM						
Brussels SE (1/1/84)	3592.3	3558.8	3551.1	3586.1	5412.2 (13/8)	3527.5 (30/10)
DENMARK						
Copenhagen SE (3/1/83)	182.54	(u)	181.37	182.57	219.76 (27/8)	179.60 (20/11)
FINLAND						
Unitas General (1975)	569.7	571.7	571.2	573.1	679.1 (15/10)	425.2 (5/1)
FRANCE						
CAC General (31/12/82)	274.1	275.7	271.8	278.3	460.4 (26/3)	271.8 (7/12)
Ind. Tendance (31/12/86)	70.2	70.8	70.0	71.7	117.2 (26/3)	69.7 (10/11)
GERMANY						
FAZ Aktien (31/12/58)	425.81	422.92	420.08	422.37	676.84 (6/1)	400.13 (10/11)
Commerzbank (1/12/53)	1311.0	1296.9	1292.5	1296.7	2061.1 (17/8)	1220.9 (10/11)
HONG KONG						
Hang Seng Bank (31/7/64)	1984.98	1886.12	1894.94	1994.22	3949.73 (1/10)	1894.94 (7/12)
ITALY						
Banca Com. Ital. (1972)	503.32	(c)	504.56	513.53	767.34 (30/4)	476.27 (10/11)
JAPAN **						
Nikkei (16/5/49)	22885.70	22948.34	22586.52	22602.75	26646.43 (14/10)	18544.00 (13/1)
Tokyo SE New (4/1/68)	1856.40	1857.54	1833.13	1833.86	2258.56 (11/6)	1557.46 (13/1)
NETHERLANDS						
ANP-CBS General (1970)	202.6	199.0	199.0	198.3	334.1 (14/8)	192.2 (10/11)
ANP-CBS Industrial (1970)	155.6	153.3	153.6	153.7	280.8 (11/8)	147.5 (10/11)
NORWAY						
Oslo SE (4/1/83)	329.20	317.97	318.89	324.97	592.04 (21/9)	307.48 (10/11)
SINGAPORE						
Straits Times Ind. (30/12/66)	728.3	704.4	700.4	734.9	1505.4 (26/8)	700.4 (7/12)
SOUTH AFRICA						
JSE Gold (28/9/78)	(u)	1715.0	1678.0	1750.0	2499.0 (3/8)	1448.0 (5/11)
JSE Industrial (28/9/78)	(u)	1448.0	9455.0	1474.0	2266.0 (16/10)	1402.0 (23/11)
SPAIN						
Madrid SE (30/12/85)	205.52	(c)	201.96	201.08	325.44 (6/10)	201.08 (4/12)
SWEDEN						
Jacobson & P. (31/12/56)	2152.80	2166.08	2141.81	2303.54	3550.40 (9/10)	2068.60 (10/11)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	463.4	462.5	458.2	460.0	729.7 (5/10)	450.9 (10/11)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	391.0	383.6	381.9	495.9 (27/8)	361.3 (2/1)

** Saturday December 5: Japan Nikkei 22673.41 . TSE 1837.51

Base values of all indices are 100 except Brussels SE — 1,000 JSE Gold — 255.7 JSE Industrials — 264.3 and Australia, All Ordinary and Metals — 500: (c) Closed.(u) Unavailable.

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div	Yld	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev Close
25⅝	14	AAR s	.36	2.4	14	435	15¼	14½	15¼	+¾
32½	19	AFG s	.16	.7	8	602	23½	22¼	23½	+1¼
27	10½	AGS s			12	664	13⅜	12⅝	13⅜	+½
10½	6¼	AMCA				2	6⅝	6⅝	6⅝	+⅛
9⅜	3¼	AM Intl			33	1077	4¾	4⅜	4⅝	+¼
65½	26¾	AMR			9	5107	31¾	30¼	30⅝	−1⅛
27½	24⅞	ANR pf2.67		11.		4	25⅛	25	25⅛	−⅜
25	19	ANR pf2.12		10.		1	21¼	21¼	21¼	+⅝
12¼	6⅜	ARX s			7	248	7½	6⅞	7	−⅛
73½	35⅛	ASA	2a	4.0		448	51¼	49½	49¾	−1⅜
22⅞	9½	AVX			16	355	12½	12	12½	+¾
67	40	AbtLab	1	2.2	17	5350	46½	45⅛	46	+⅜
28	15⅞	Abitibi g				140	18½	18⅜	18½	+⅛
15¾	8½	AcmeC	.40	3.8	15	303	10¾	9⅝	10⅝	+⅞
20	14⅛	AdaEx	3.34e	22.		189	15¾	15	15¼	+⅛
19½	6⅞	AdmM s	.24	2.8	7	173	8¾	8⅜	8⅝	−⅛
35	16⅝	AdvSys			12	549	26½	25⅞	26½	+½
24⅞	7½	AMD				5920	9½	8½	9¼	+⅝
56¾	29¼	AMD pf	3	9.4		131	32⅞	31	32	+1
11⅞	4⅝	Adobe				458	5½	5	5½	+½
20½	15½	Adob pf1.84		11.		3	16¾	16¾	16¾	+¼
21⅞	17	Adob pf2.40		12.		12	20⅛	20	20	−⅛
15	6⅛	Advest	.12a	1.6	6	242	7⅝	7⅜	7½	
68¼	43⅞	AetnLf	2.76	6.2	6	2750	44⅞	44¼	44¾	+⅛
83½	33¼	AfilPb s	.40	.9	7	364	47	45⅝	46¼	+1½
26⅞	13⅜	Ahmans	.88	6.5	6	2313	14⅛	13½	13½	−½
5⅜	1¾	Aileen				76	2¼	2⅛	2⅛	
53⅞	29	AirPrd	1	2.9	12	1257	35⅞	33⅝	35	+1½
36	11⅛	AirbFrt	.60	4.9	7	649	12¼	12	12⅛	+⅛
16½	6¾	Airgas n			13	249	8⅞	8½	8⅞	
19½	13½	AirleaseF	.16e	14.	9	18	15⅞	15⅝	15¾	
15-32	5-16	AlMoan			17	91	⅜	11-32	11-32	−1-32
10¾	7⅝	AlaP dpf.87		9.4		38	9¼	9⅛	9¼	
98½	77	AlaP pf8.28		10		z310	81	80	81	
27⅞	12¼	AlskAir	.16	1.2	17	607	13½	13⅛	13⅛	−¼
28¼	14¾	Alberto	.24	1.4	14	76	17⅜	17	17⅜	−⅛
24	12⅝	AlbCulA	.24	1.7	11	153	14	13⅝	14	+¼
34	20¼	Albtsn s	.48	1.9	14	961	25½	24¼	25	+⅝
37⅞	18	Alcan s	.45i	1.7	13	5722	26¼	25⅛	25¾	
30	15¼	AlcoS s	.68	3.8	10	959	18	17⅜	17⅞	+½
32	15⅞	AlexAlx	1	6.0	12	1423	16⅝	16⅜	16⅝	+⅛
59	34¾	Alexdr			113	8	38⅜	38¼	38⅜	
92½	48½	AllegCp			6	62	69	67	69	+1½
24¾	2⅜	AlgInt				638	3	2⅝	3	+⅜
20⅛	5¼	AlgIn pr				68	6¼	5⅜	6¼	+⅞
83½	20½	Algl pfC				608	23	d20	22¼	+1¾
34	15⅛	AlgLudn	.20e	1.0		368	20¾	18½	20¾	+2⅛
49	31⅜	AllgPw	3	8.3	9	2971	36⅜	35⅞	36¼	+⅛
105⅞	52	Allegis	.75j		35	4129	71½	69⅝	70	−¾
19⅝	5½	AllenG	.56j			2010	6⅜	6	6⅛	−⅛
24⅞	11½	Allen pf1.75		15.		214	12¼	d11¼	11½	−½
44	12⅜	AlldPd			8	222	13½	12⅝	13½	+⅞
49¼	26⅛	AldSgnl	.80	6.4	6	6901	28	27	28	+¾
3¾	1	vjAllisC				362	1⅜	1¼	1¼	
37½	5⅛	AlisC pf				31	7¼	7¼	7¼	+¼
10⅛	8⅞	AlstMun	.03e	.3		241	9¾	9½	9½	−⅛
34⅛	23	ALLTL	s1.52	5.4	15	607	28⅜	27	28⅜	+1
64¾	32⅝	Alcoa	1.20	2.6		8028	47⅝	45¼	46	−½
32	14	AmxG	n.04e	.2		166	25⅜	24⅝	25⅜	+⅝
29¼	11⅞	Amax			7	3766	18¾	17½	18¾	+¾
47¾	34	Amax pf	3	7.9		1	38	38	38	+¼
41⅞	21½	AmHes	.45e	1.9	8	4532	24½	23½	24¼	+1
30⅝	6⅞	ABrck	s.05e			415	21⅝	20¾	21	+⅛
60	36½	AmBrnd	2.20	5.1	10	2567	43¾	42¼	43⅛	−⅞
34½	29⅞	ABrd pf2.75		9.1		1	30¼	30¼	30¼	
26⅝	15	ABldM	.90	5.7	11	184	16¼	15¾	15¾	
31½	15½	ABusPr	.80	4.8	11	34	16⅝	16⅝	16⅝	+⅜

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Continued on Page 39

NYSE COMPOSITE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close

Continued from Page 38

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
54	44	PaPL	pf4.50	10.		z150	45	45	45	−½
101	78	PaPL	pr8.40	10.		z270	83½	82½	83½	+1
98¼	74	PaPL	pr 8	10.		z270	79	79	79	
68¼	34¾	Penwlt	2.40	5.9	11	107	41	40½	40¾	+⅛
39½	20½	Penw	pr1.60	6.8		76	23¾	23⅝	23½	−⅝
95	38½	Pennzl	2.20	2.9	57	1364	75¾	74	74¾	−1⅛
26¾	14¼	PeopEn	1.44	9.1	9	26892	16¼	15½	15¾	−¼
16⅞	9½	PepBy	s .08	.6	21	2606	13¼	12	13	+1
42¼	25½	PepsiCo	.68	2.1	15	8233	32¼	31½	32⅛	+⅜
12¾	7⅜	PerkF	1.15e	12.	13	90	9¼	9½	9⅜	
41⅛	18½	PerkE	.60	2.7		2361	22⅛	21⅝	22	−⅛
8⅛	5⅛	Prmian	.53e	10.	9	353	5⅝	5¼	5¼	
10¼	6¾	PrLP	pr1.15	13.		396	8⅞	8½	8⅞	+⅛
15⅝	5⅜	PeryDr	.22	3.8		567	5⅞	5½	5¾	+¼
40	15	Petrie	.70	4.3	11	1516	16⅝	16	16⅜	+⅛
21¼	15½	PtPar	n 2	12.	12	180	16⅞	16⅝	16⅝	+⅛
33½	21¾	PetRs	3.96e	18.		134	22⅝	22⅛	22⅝	−⅛
19¾	15	PetRs	pf1.57	10.		39	15¾	15⅝	15¾	+¼
2⅞	1	Prinv	.18e	16.		254	1⅛	1	1	
77	40	Pfizer	1.80	4.1	11	14180	46	44	44⅜	−⅜
56	20½	PhelpD	.60	1.3	22	4566	44⅞	43¾	44½	
74	37	PhlpD	pf 3	5.0		x1134	60¾	58⅜	59⅝	−¾
26	16¾	PhilaEl	2.20	12.	8	2214	18⅞	18⅝	18¾	−⅛
45½	34	PhE	pfA3.80	8.5		z300	44½	44½	44½	+½
97⅞	69	PhE	pfG8.75	11.		z420	77	76⅞	77	
13¾	11	PhE	pfR1.41	11.		19	12⅝	12½	12½	
125	115	PhE	pfQ14.63	13.		0	116¼	116¼	116¼	
13¼	9⅞	PhE	pfP1.33	11.		15	11⅞	11¾	11⅞	
88¾	68⅞	PhE	pf17.85	11.		z100	72⅞	72⅞	72⅞	−⅛

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Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

OVER-THE-COUNTER Nasdaq national market, 2.30pm prices

Stock	Sales (Hds)	High	Low	Last	Chng
[illegible]					

Continued on Page 37

AMERICA

Rally overcomes trade data nerves

Wall Street

US EQUITIES continued to rally in active trading yesterday in spite of nervousness about today's October US trade figures and dollar weakness, *writes Janet Bush in New York.*

The Dow Jones Industrial Average closed 34.15 points higher at 1,902.52. After some weeks when volume on the New York Stock Exchange had been relatively low, the last two sessions have seen a marked recovery in activity which suggests some modest rebuilding in confidence.

More than 230m shares changed hands yesterday compared with volume of nearer 150m in recent trading sessions.

Nobody is prepared to guess how long-term the current rally is and there is a fear that any further substantial gains will only take the market to a level where investors who had looked at large paper losses after late October's decline could take profits.

Blue chips have led this week's recovery, helped by substantial programme trading activity, but there has also been some genuine buying across a wider range of stocks.

The US Treasury bond market remained in the doldrums as equities recovered but, by the close, managed to reverse a small decline to a modest net gain.

The bond market is sensitive currently to the performance of the dollar and is highly nervous about a seris of economic figures due to be released today and tomorrow.

Most important are today's trade figures, widely forecast to show a deficit in October of at least $15bn compared with $14.1bn in September.

The bond market will also be looking with interest at tomorrow's retail sales and producer prices data. Prices are expected to have risen by 0.3 per cent in November compared with a fall of 0.2 per cent in October.

The US Treasury's 8.875 per cent 30-year bond ended ¼ point higher, yielding 9.20 per cent.

The mood in the equity market remains uncertain. Traders seem desperate for any evidence that the market is genuinely on its way to recovery and this week's rise has prompted many to call the end of the market's bear tack.

However, this week's rise of just over 130 points on the Dow compares with the fall in the index last week of 143.74 points.

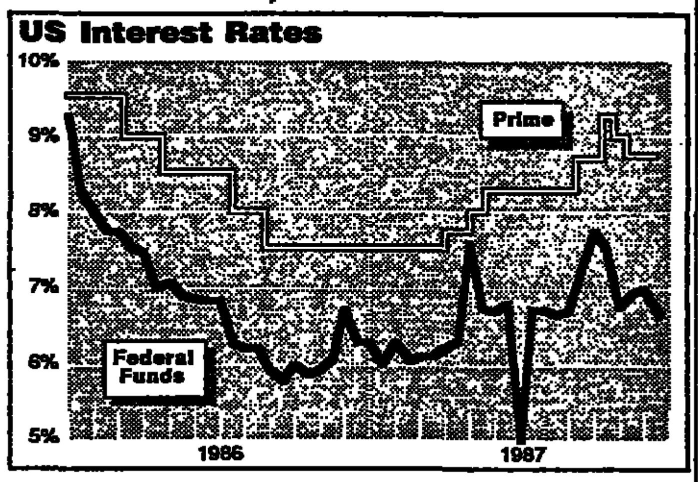
Since the October crash, the prime characteristic of the market is volatility.

Among blue chip stocks, IBM jumped $2¼ by midsession to $113¾ and General Electric was up $1⅝ at $43⅞. The two companies yesterday announced they had agreed to co-operate in the development of new semiconductor technologies and components for use in future IBM products.

Business news organisations were in the limelight yesterday. Dow Jones rose $¾ to $33¼ after its chairman said he expected earnings this year to increase up to 12 per cent. Knight-Ridder rose $1⅛ to $40⅛ after its president said 1987 earnings would be in line with analysts' estimates of about $2.68 a share and that 1988 earnings should increase by more than 40 cents a share. Reuters rose $2⅞ to $45½. The company announced yesterday it was cutting 115 production and support jobs at its Rich subsidiary in Chicago but that Rich would be taking on 25 new technical development people and 90 staff positions were being created at its manufacturing subsidiary in Long Island.

Dun and Bradstreet, the business information and publishing company, jumped $3¼ to $50⅜ after its chairman said he expected another year of excellent growth and that in 1988 revenue increases should return to double digits.

RJR Nabisco added $½ to $48. The company announced yesterday its subsidiary Nabisco Brands had agreed to sell its Dromedary operations



Canada

TORONTO STOCKS closed higher, but off the day's highs. Bank and energy stocks advanced but gold stocks were lower.

The composite index closed up 13.07 to 3063.70, after being up 30 points at midsession. Advances led declines by 486 to 385 on a volume of 24.8m shares.

TransCanada PipeLines, which raised its takeover bid for Encor Energy to C$9.375 per share from C$8.75, was up C$⅜ at C$15¼. Encor gained C$¾ to C$9¼.

Dome Petroleum, which sold its 35 per cent of Encor to TransCanada Pipe, lost one cent to 82 cents.

On the gold list, International Corona declined C$1½ to C$55½.

ASIA

Late profit-taking sinks Nikkei

Tokyo

A WAVE of profit-taking eroded a strong morning advance and put the lid on buying enthusiasm to take prices lower in Tokyo yesterday, *writes Shigeo Nishiwaki of Jiji Press.*

Large-capitals and high-tech stocks were hardest-hit by profit-taking but car issues remained firm.

The Nikkei average shot up 201 at the outset but fell gradually to slip below 23,000, ending 62.64 lower at 22,885.70. Despite the active buying in the morning, volume reached only 501.69m shares against Tuesday's 458.60m. Advances outnumbered declines by 483 to 392, with 146 issues unchanged.

Buying was boosted by exchange rate stability and firmer international stock prices and was further encouraged by Tuesday's upswing on Wall Street. As institutional buying faded towards midsession, light selling took over to send prices lower until the close.

The signing of the INF treaty failed to lift the dollar, renewing caution among investors. Institutional investors, who are decisive in determining the market's course, retreated to the sidelines, with the exception of investment trusts.

Steels and other large-capitals opened higher, helped by massive overseas buying, but came under selling pressure in the afternoon. Kawasaki Steel remained the most active stock with 40.23m shares traded. It gained Y6 to Y362 at one stage before a late fall left it up Y1 at Y357. Nippon Steel, second busiest with 21.09m shares traded, and Nippon Kokan also failed to hold on to their morning gains, closing Y6 lower at Y419 and Y5 down at Y324, respectively.

Many high-techs lost ground in the afternoon. Hitachi, which started the day with a Y30 increase, fell Y20 to Y1,200 by the close, while Sony ended Y40 lower at Y5,050 after rising Y100 earlier in the session. Matsushita Electric Industrial was down Y10 at Y2,130.

Nissan Motor climbed Y25 to Y749 in active turnover due to brisk domestic demand for cars.

Amid the ballooning profit taking, small-capital car-related issues continued active, reflecting improvements in business. Tokico added Y30 to Y710 on the seventh largest volume of 9.96m shares, while Clarion and Koito Manufacturing advanced Y43 to Y920 and Y50 to Y1,460, respectively.

Elsewhere, Japan Synthetic Rubber rose Y22 to Y870 in busy trade and Tokyo Tekko soared Y108 to Y1,100.

Bond prices also declined after a gain in the morning. The INF accord had little impact on the market and dealers were most preoccupied with the imminent release of the US trade deficit for October. The Bank of Japan's buying operations in the morning, covering Y500bn worth of bills and Y50bn worth of 10-year Government bonds, also failed to sway the market. Analysts saw the moves as predictable measures to cope with the day's Y1,000bn fund shortage on the money market.

The yield on the 5.0 per cent Government bond due in December 1997 fell to 4.675 per cent in morning trading but later turned higher, ending at 4.755 per cent against Tuesday's 4.730 per cent.

Issues based in the Kansai area of Western Japan remained popular on the Osaka Securities Exchange. The OSE stock average climbed 132.00 to 23,300.66 on transactions amounting to 131.60m shares, up 29.82m.

SOUTH KOREAN shares rose sharply after the Government said it would buttress the market by making available a Won 220bn ($276.7m) fund to securities firms. The composite stock index closed 6.93 higher at 476.59 after having shed 9.31 the previous session.

The Government fund is to be used to buy shares on the market which has lately suffered a sustained selling spree.

Australia

GAINS in overseas markets prompted a modest recovery in Sydney share prices after a weak four-session streak, though volume remained thin. The All Ordinaries index closed 15.1 higher at 1,237.3.

Quality stocks moved to the fore as foreign buying predominated. Golds fared particularly well in the light of a stronger bullion price. ACM added 40 cents to A$4.40, while Sons of Gwalia and Metana both rose 30 cents to A$8.30 and A$9.80 in turn.

Resource issue CRA was 25 cents higher at A$5.10 in a stronger sector as platinum issue Helix topped the actives on 3.7m shares to add 8 cents to A$1.08.

Bell Group rose 5 cents to A$1.75 as its chairman Mr Robert Holmes a Court said the group would sell more assets. Bell Resources rose 16 cents to A$1.46.

Singapore

BARGAIN hunters gave Singapore stock prices impetus in moderate trade as most sectors showed modest gains. The Straits Times industrial index was not available, but calculations by the Overseas Union Bank put the indicator 21.68 higher at 726.15.

The market weathered sporadic profit-taking on optimism fuelled by overnight climbs in New York. Among the best performers, Fraser and Neave added 35 cents to S$6.60, Metro 32 cents to S$4.50 and Cerebos 26 cents to S$3.52.

Hong Kong

MILD profit-taking pared modest early gains in Hong Kong to leave prices little changed. The Hang Seng index lost 1.14 to 1,984.98 in moderate trade.

In mixed properties, Hongkong Land made up 10 cents to HK$6.45, but Cheung Kong was 5 cents off at HK$5.40. Banks were also varied, Hang Seng adding 10 cents to HK$25.60, but Hongkong Bank losing 5 cents to HK$6.55.

Utilities were generally higher, Hong Kong Telephone adding 10 cents to HK$11 and Hongkong Electric 5 cents to HK$6.50.

DBS rose 25 cents to S$8 and ICS 20 cents to S$6.30. Singapore International Airlines made up 20 cents to S$8.20.

SOUTH AFRICA

AN improvement in the bullion price lifted Johannesburg gold shares, with a lack of available scrip helping to boost prices.

Among the firmer issues, Vaal Reefs picked up R8 to close at R353 and Randfontein added R1 to R286.

Freegold was also R1 stronger at R41.50, while Driefontein climbed R1.75 to R39.50, and Welkom and Kloof both rose 75 cents each to R28.75 and 39.75 in turn.

Diamond stock De Beers fell under renewed selling pressure by 10 cents to R29.25.

Industrial blue chips were marginally weaker.

FT-A WORLD INDICES

The Australian index has been restated for the period October 16 to date (inclusive) because insufficient price data had been supplied. The Japan index has been restated from November 27 due to adjustments to data; there are amended indices for Belgium and Denmark for November 13.

A complete list of amendments for these countries and their composite indices may be obtained by writing to: FT Prices, Tower Bridge House, 198-204 Tower Bridge Road, London, SE1 2UN.

EUROPE

Gains limited as investors stay shy

INVESTORS in Europe took to the sidelines yesterday to await the release of US trade figures for October. Trading was further depressed by a renewed slide in the dollar which reined in mild early advances on major bourses, leaving share prices narrowly mixed.

FRANKFURT was undermined by a lower fix for the dollar and little activity as many operators waited for the US trade data.

A strong opening faded as profit-takers moved in after an early rally.

The midsession Commerzbank index rose 14.1 to 1,311.0 but did not reflect the late downturn.

Cars had an easier bias. Daimler dropped DM8.50 to DM605.50 after posting slightly higher group earnings, VW fell DM2.80 to DM220, but BMW edged 50 pfg higher to DM431 and Porsche added DM1 to DM416.

Electricals were broadly lower, falling in tandem with the dollar.

In a mixed machinery sector, MAN shed DM1.50 to DM120.50 despite winning a DM850m order from News Corp.

Sports goods manufacturer Puma, expected to post a parent company loss this year, declined DM4.50 to DM206.

Airline Lufthansa rose DM4 to DM124 after forecasting a turnaround to profit for parent company operating earnings.

Banks were mixed but little changed from the previous session.

Public authority bond prices firmed in edgy trading. The Bundesbank sold DM99.4m of paper after selling only DM12.2m yesterday.

PARIS was discouraged by renewed weakness in the dollar which triggered a moderate sell-off after a tentative opening rally.

Volume remained thin as many operators sat on the sidelines awaiting the US trade figures.

Price fluctuations were narrow and leading blue chips moved lower.

Elf Aquitaine fell FFr1 to FFr235, Lafarge-Coppee lost FFr35 to FFr1,055 and Cie du Midi shed FFr12 to FFr970.

Electronics and transport group Matra, which is to build an advanced rail link between the existing Paris transport network and Orly airport, rose FFr50 to FFr1,400.

Speculation about Martell continued and the drinks group added FFr102 to FFr2,052.

AMSTERDAM turned mixed with a lower bias as investors continued to wind down business for the year and to wait for the US trade data.

The weighted ANP-CBS index added 0.1 to 202.6 and the CBS tendency was up 0.1 at 62.3.

Philips closed 40 cents higher at Fl 28.40, off the day's high of Fl 28.60.

The electronics group said it had postponed the 20 per cent share sale of its Polygram music unit and also announced it had agreed a new standard for small audio compacts disc with Sony.

Brewer Heineken closed Fl 1.30 lower at Fl 117.90 and Ahold firmed 90 cents to Fl 61.40 after forecasting unchanged profits for the year.

Aircraft maker Fokker closed 50 cents higher at Fl 21.80 after the Government said it would have to merge before 1991 as part of the company's restructuring after debts and lay-offs.

ZURICH held an even keel with share prices hardly changed at the end of a very quiet day.

The Credit Suisse index inched up 1.1 to 412.5 with moderate gains in insurers tipping the index higher.

Swiss Re advanced SFr300 to SFr12,200, Winterthur added SFr100 to SFr4,575 and Zurich rose SFr125 to SFr4,900.

Blue chips finished mixed and banks were little changed.

Food company Nestle managed a SFr200 rise to SFr7,800 and Jacobs-Suchard edged up SFr50 to SFr8,000.

Industrials and financials were narrowly mixed.

BRUSSELS built on the previous day's gains, firming on the general belief that Sunday's general elections would not bring a change to the country's economic policy.

The Brussels stock index added 33.55 to 3,592.7 but traders were still hesitant, keeping a watchful eye on the dollar, and turnover was low.

Much of the buying was speculative and centred on holdings, insurers and industrials.

Utilities and banks were mixed where changed.

Petrofina lost BFr60 to BFr8,470 as trading in the stock came under the influence of the Opec meeting in Vienna.

OSLO moved higher as a bargain-hunt by foreign and domestic investors gathered pace. The all-share index added 2.88 to 246.34 in moderate trade.

Oils regained some ground after recent falls and industrials were broadly higher. Banks were the only sector to post modest losses.

MILAN eased as fears of further industrial disputes and renewed political in-fighting undermined interest.

The MIB share index slipped 0.14 per cent to 698 with all sectors posting modest losses in dull trading.

MADRID was lifted by good gains in engineering and building stocks as bargain-hunters picked up cut-price shares after last week's falls. The all-share index rose 2.88 to 246.34.

Banks trailed other sectors, ending little changed or slightly lower on the day.

HELSINKI slipped lower in thin trade. The Unitas all-share index shed 2.0 to 569.7.

London

SHOWING confidence in the prospects for today's US trade figures for October, London equities moved generally higher in tandem with the start on Wall Street. *The FT-SE 100* closed up 14.9 at 1,639.3.

Gilts moved narrowly, closing with slight gains made on sterling's firmness.

Free share glut burdens Stockholm

STOCKHOLM's stock market has fallen more sharply than other European markets in the past week, though like the others it is playing wait-and-see, looking to the US for some initiative and anxiously awaiting the release of today's US trade figures for October.

In two months, the Veckans Affaerer general index has fallen 34 per cent from an all-time high of 1,236.6 (on October 8) to 811.5 yesterday. The index is 10 per down on the start of the year.

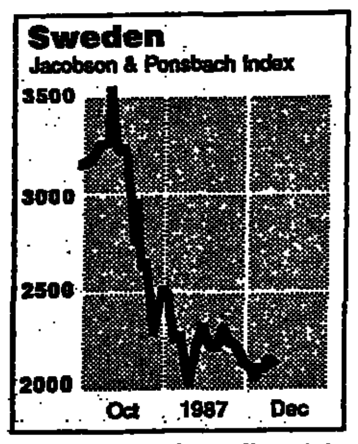
The main sellers of Swedish shares have been foreigners and small investors. The net inflow of shares held by foreigners – the so-called free shares – was SKr1.7bn ($282m) in October, though analysts expect the figure for November to be rather less as foreigners got out early, leading the run on the market.

A broker at PKbanken said: "We have been flooded with free shares in Ericsson, Astra, Volvo and Electrolux, and the Swedish market is too small to swallow the volumes from overseas. It is not their home market and they want to move out of it because they know too little about what is going on."

Daily turnover has been low at SKr210-SKr250m, compared with figures of SKr400-SKr600m in late summer.

Small investors who had borrowed heavily to play the market began selling early on during the downturn. Most trading has been in small lots, indicating that the institutions are biding their time.

The professional players do not lack money, but are showing caution. The life insurance companies collect premiums in December and January and are indicating that they will put it in bonds rather than investing heavily in equities.



"It should be a good opportunity for the insurance companies to buy their shares cheaply and increase some of their shareholdings – something they wanted to do earlier this year but chose not to because the shares were overpriced," said an analyst at Haeggloef.

Apart from falling prices, the fall-out from the crash has been only a couple of delayed new issues, including forestry company SCA's US share issue. Gambro's new issue has flopped and 90 per cent of the shares were left with the underwriters.

Analysts say the uncertainty will continue over what effect the fall could have on the Swedish economy. Already several banks have revised their growth forecasts downwards - from about 1.5 per cent to as little as 0.8 per cent for 1988.

FT – ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY DECEMBER 9 1987					TUESDAY DECEMBER 8 1987			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1987 High	1987 Low	Year ago (approx)
Australia (89)	93.34	+2.5	76.78	88.25	4.65	91.06	75.15	86.61	180.81	85.36	96.23
Austria (16)	91.22	+0.4	75.03	78.74	2.65	90.83	74.96	78.68	102.87	85.53	95.42
Belgium (48)	96.44	+1.1	79.32	83.12	5.68	95.36	78.70	82.43	134.89	94.63	97.32
Canada (127)	105.81	+0.4	87.03	100.18	3.10	105.38	86.97	99.89	141.78	98.15	99.69
Denmark (38)	112.52	+1.9	92.54	97.94	3.01	110.38	91.09	96.46	124.83	98.18	98.70
France (121)	79.24	-0.2	65.18	70.08	3.78	79.43	65.55	70.43	121.82	77.39	101.49
West Germany (93)	73.74	+0.9	60.65	63.79	2.98	73.09	60.32	63.38	104.93	68.91	96.43
Hong Kong (46)	76.77	+0.1	63.14	76.63	6.40	76.68	63.28	76.61	158.68	73.92	95.49
Ireland (14)	97.68	+0.8	80.34	85.94	5.25	96.93	80.00	85.61	160.22	93.50	98.46
Italy (94)	76.70	+0.4	63.09	70.09	2.72	76.43	63.08	70.21	112.11	72.04	89.19
Japan (457)	139.80	+0.1	114.99	117.00	0.59	139.60	115.21	117.10	161.28	100.00	96.95
Malaysia (36)	96.74	+2.5	79.57	93.13	3.87	94.37	77.88	90.93	193.64	93.76	97.69
Mexico (14)	115.32	-1.3	94.85	284.32	1.06	116.83	96.41	286.76	422.59	99.72	102.50
Netherland (37)	91.65	+0.7	75.38	78.31	5.73	91.04	75.14	78.00	131.41	87.70	97.99
New Zealand (20)	77.38	+2.2	63.64	64.10	5.23	75.72	62.49	62.91	138.99	75.09	94.18
Norway (24)	98.74	+2.4	81.21	86.17	3.15	96.41	79.56	84.66	185.01	95.51	98.33
Singapore (27)	84.20	+3.7	69.26	78.84	3.05	81.21	67.02	76.15	174.28	81.21	99.92
South Africa (61)	137.75	+1.7	113.30	91.95	4.63	135.45	111.78	91.12	198.09	100.00	100.81
Spain (43)	117.87	+1.4	96.95	100.37	4.11	116.19	95.89	98.98	168.81	100.00	95.53
Sweden (34)	93.53	-0.8	76.93	83.18	2.74	94.26	77.79	84.14	136.64	88.50	95.38
Switzerland (53)	77.07	+0.9	63.39	65.01	2.55	76.41	63.05	64.61	111.11	73.65	96.16
United Kingdom (332)	120.31	+1.1	98.96	98.96	4.68	118.99	98.20	98.20	162.87	99.65	94.17
USA (582)	97.15	+1.8	79.91	97.15	3.79	95.46	78.78	95.46	137.42	91.21	104.02
Europe (947)	96.56	+0.9	79.42	82.00	4.10	95.74	79.01	81.56	130.02	92.25	95.40
Pacific Basin (675)	135.65	+0.2	111.57	114.47	0.81	135.35	111.70	114.48	158.77	100.00	96.88
Euro–Pacific (1622)	120.04	+0.4	98.73	101.51	1.87	119.53	98.65	101.34	143.65	100.00	96.29
North America (709)	97.61	+1.7	80.29	97.34	3.75	95.99	79.21	95.73	137.55	91.68	103.79
Europe Ex. UK (615)	81.82	+0.6	67.30	71.38	3.57	81.32	67.11	71.14	111.97	78.89	96.17
Pacific Ex. Japan (218)	85.44	+1.8	70.28	81.32	5.13	83.94	69.28	80.20	164.03	82.92	96.01
World Ex. US (1824)	119.74	+0.4	98.48	101.51	1.94	119.21	98.38	101.33	143.38	100.00	96.46
World Ex. UK (2074)	110.09	+0.9	90.55	100.21	2.34	109.15	90.08	99.51	138.82	100.00	99.92
World Ex. So. Af. (2345)	110.81	+0.9	91.14	100.08	2.55	109.84	90.65	99.38	139.47	100.00	99.39
World Ex. Japan (1949)	97.18	+1.4	79.93	91.39	3.93	95.84	79.09	90.25	134.22	92.98	100.58
The World Index (2406)	110.98	+0.9	91.28	100.05	2.57	110.01	90.79	99.35	139.73	100.00	99.40

Base values: Dec 31, 1986 = 100

SECTION III

FINANCIAL TIMES SURVEY

The next six-year presidency, following elections in July, will have a decisive influence on whether the country can bridge the gap between the developing and developed world. The principal current problem is continuing inflation, writes **Robert Graham**

President Miguel de la Madrid prepares for his chosen successor, Carlos Salinas de Gortari

Mexico

An air of expectation

EVEN in the remotest of Mexican villages, billboards, posters and walls confidently proclaim the name of Carlos Salinas de Gortari as the nation's next leader. The fanfare surrounding July's presidential election has begun.

Mr Salinas is the candidate of the ruling institutional party, the PRI, which has dominated Mexican life for 70 years, and almost certainly will succeed President Miguel de la Madrid. Indeed the *Mexican presidential election has* come to be rather like Kabuki theatre: everyone knows the plot, the interest centres on how the actors will interpret their roles.

The manner in which he became The Candidate, handpicked by President de la Madrid, revealed that the PRI hierarchy still follows its own traditions rather than pressures for greater transparency and accountability. Yet, the choice itself is an exciting one; and from those allowed to throw their hat into the ring, Mr Salinas is certainly best qualified to shape Mexico's future.

The next six-year presidency will lead the country into the mid-90s and will have a decisive influence over whether this country of 83m inhabitants can bridge the gap between the developing and developed world.

Mr Salinas is part of the generation of the 1968 student revolt. He is only 39-years-old (though his balding head belies this) but, when Planning Minister, he showed himself to be adept at out-manoeuvring his Cabinet colleagues.

He possesses a formidable set of intellectual credentials and is surrounding himself with an astute mix of advisers. As a US graduate, he has a good knowledge of America but, intriguingly, *he is also fascinated by* Japan and could push Mexico more towards the Pacific Rim (his three children attend Japanese schools in Mexico City).

His campaign was launched last month with a gesture full of subtle symbolism. He chose Monterrey, the centre of Mexico's modern industrial growth, where the business community has long been critical of the PRI's stifling hold over the country. He chose to arrive with an entourage modest by previous standards, and travelled by train (the train was a key element of mobility and surprise during the Revolution).

The expectation is for an austere, unostentatious campaign. Cynics argue this is no more than recognition of the public's profound disenchantment with a political system that allows only one winner, the PRI. However, Mr Salinas has much more of a no-nonsense approach than his predecessors and circumstances scarcely favour the usual self-congratulatory jamboree. The spectacular crash of the Mexican stock market, in the wake of the collapse of international stock markets, has had a profound dampening effect.

Before the October crash, much of the Mexican establishment and virtually the entire business community was riding on wave of euphoria. Mexico had won the plaudits of the international banks for coping with the burden of its $103bn foreign debt, while Brazil had been obliged to suspend payment of interest on a debt only slightly larger.

The structural reforms in the economy, initiated in 1985, appeared to be working with a genuine switch away from dependence upon oil exports which so distorted economic performance before the debt crisis. Foreign investment was flowing in, and impressive quantities of capital were being repatriated, especially to the stock market which was enjoying an unprecedented boom.

In short, Mexico had regained its confidence, so shattered by the onset of the debt crisis and the chaotic final days of the Lopez Portillo administration when the banks were nationalised. *President de la Madrid* looked set to make an elegant departure with a smooth handover to the man he had picked to sustain the emphasis on economic and financial orthodoxy.

That the bubble has burst is no bad thing, according to observers like Mr Jesus Silva Herzog, the former Finance Minister, who lost out early in the presidential race. "The euphoria and optimism of the months up to October were exaggerated because the country still faced and faces very serious problems," he says.

Principal among these problems has been the Government's inability to bring down inflation. Targets have been frequently overshot and, rather than being brought down, inflation has *shown a disturbing tendency to* move upwards. This year inflation could end as high as 150 per cent, even without pending public sector tariff increases.

Another serious problem is the size of the public sector deficit, which is hovering around 18 per cent of *GDP*. Despite continuing attempts at expenditure cutbacks, the deficit is not diminishing; and with inflation on the up, the cost of servicing domestic debt has a further negative impact. The situation is such that some sort of *stabilisation* plan is needed. However, this would be a humiliating admission that all the efforts of economic management since 1983 have been to little avail.

The various debt rescheduling *arrangements* agreed with the banks and the international financial community over the past three years have been nothing more than stop-gap measures. Mexico's margin of manoeuvre, especially if it wants to pursue the Baker Plan ideal of tackling the debt crisis through economic recovery, is limited.

On the one hand, access to further credit from abroad cannot be taken for granted in the present climate. (It could well need $6bn over the next two years, mainly in 1989.) *On the other* hand, pressing for growth of 3 per cent next year is scarcely compatible with holding back inflation.

In political terms, Mexico needs to return to growth as soon as possible. More than 800,000 people are coming onto the job market annually; but few of these are being absorbed. Job creation has been static except in the in-bond *maquiladora* industry along the US border and in the northern states.

Emigration to the *US* is no longer seen as such an effective safety valve. The 1986 Simpson-Rodino Act has not really cut back emigration, rather it has made illegal entry more expensive. This tends to encourage an *exodus of the people Mexico can* least afford - qualified personnel.

On present form, President de la Madrid will leave office having presided over the first six-year period since the thirties when the economy has stagnated. Incomes in many instances have declined, and social discontent is palpable though it is channelled in no coherent direction.

In the countryside, the number of violent conflicts involving landlord and peasant, notably in the states of *Chiapas and Oaxaca*, are on the increase. Across the country there has been a disturbing rise in violent crime and robbery, sufficient to make this a key issue in the presidential campaign.

The de la Madrid *government* is sensitive to these issues and has been careful in its economic liberalisation programmes not to cut subsidies too drastically on basics like maize used in the tortilla, the mainstay of Mexicans' daily diet. The level of social discontent over austerity would undoubtedly have been greater but for the incestuous relationship between the government and the PRI-controlled union movement. The veteran union boss, Mr Fidel Velasquez, has kept his members dutifully in line - giving President de la Madrid a cushion of stability which the Alfonsin Government in Argentina, for instance, has not enjoyed.

The passivity of the unions has *been especially significant in the* light of the two shocks the economy has had to absorb in the past two years: the appalling 1985 earthquake and the sharp drop in oil prices in 1986 which halved export earnings.

However, it would be churlish not to credit President de la Madrid with embarking on a much needed structural change in the economy, slowly shifting away from an import substitution model towards an export economy. He has pushed through *membership* of the GATT, initiated a process of privatisation and has begun the uphill task of breaking the protectionist mentality of industry.

In foreign policy he has also done much to smooth the complex and fraught relationship with the US. Although not always easy, given the Reagan administration's sensitivity to events in Central America, the level of rhetoric has been reduced and the extent of practical co-operation extended. With two-way trade of over *$30bn*, the US relationship is a key element in the shaping of Mexico's future.

The Mexicans are still extremely prickly about a possible colonial-style domination by US *capital. This helps explain* why only 5 per cent of total investment is foreign (compared, say, with Canada which has 45 per cent). But, as one telling commentary in the magazine, Vuetla, put it recently: "Mexico is now adult, too powerful, autonomous and diversified to think that it will lose its independence, territorial integrity and sovereignty because a foreigner sets up a factory here."

The greatest criticism levelled at President de la Madrid centres *on his lukewarm efforts to* reform the structure of power and clean up on corruption. Too often he has appeared a prisoner of the system, unable or unwilling to exploit the exceptional powers at the disposal of the Mexican president.

The powerful fiefdoms within the system, like the Petroleum Workers Union and the Teachers Union, have not been brought to heel. Nor have the ballot boxes been respected in the north when the conservative opposition PAN party appeared to have won.

With refreshing candour, Mr Salinas has promised to put a stop to the PRI professionals ensuring a "clean sweep" in elections. He has also given notice of his intention to shake up the traditional PRI power structure.

These kind of promises have created an atmosphere of expectation that Mexico soon might have its own version of glasnost. He is undoubtedly genuine in his *intentions. But at this stage,* it is unclear whether, if elected, he will change the system or the system will change him.

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David Gardner reports on the political scene

Dinosaurs' lunch

AN AGGREGATE of over 4,000 years of political history was scattered about the lunch tables in the spacious garden of General Alfonso Corona del Rosal, *octogenerian former President of* Mexico's eternally ruling Institutional Revolutionary Party (PRI).

This "lunch of the dinosaurs", as it was christened by the press, was for 60 veterans of the longest enduring non-Communist regime in the world. They were gathered to see in what is being promised as a new era.

Present were not only the offspring of the Bonapartes of Mexico's 1910-17 Revolution - Generals Alvaro Obregon and Plutarco and Elias Calles the founder of the ruling party - but some of their old cronies as well.

Standard fare in the after lunch speeches was General Corona recalling the Battle of Celaya - at which Pancho Villa's Northern division was defeated - for the like of General Gilberto R Limon, a 96-year-old who was Obregon's chief of staff.

But the peroration was more for the benefit of Mr Carlos Salinas de Gortari, the 39-year-old former Planning Minister chosen weeks before to succeed President Miguel de la Madrid next year. The dinosaurs, General Corona told Mr Salinas, warming to his theme, "were vigorous beings that lived in an exuberant prodigal and tropical world. But the access of the earth shifted."

President Miguel de la Madrid

Just such a shift in Mexico's political axis is what Mr Salinas has pledged to engineer. His still sketchy central slogan of "modern politics" can best be summerised as two perceived and imperative needs: thorough-going democratic reform, and a return to the sustained economic growth Mexico used to enjoy.

This ceased upon Mexico's financial collapse in 1982 for which many blame the mismanagement, corruption and arbitrariness of the PRI.

The issue of democratisation is central. It has recently acquired the status of conventional wisdom here, that unless the next administration opens up what is *de facto* a one party power structure, to accommodate a society which has long since outgrown it, then the future of the regime, and with it Mexico's unique record of stability in Latin America, must be in doubt. This is a view the new President *anointed appears to share, even* if it is not expressed in this way.

The principle obstacle to achieving democratisation is the ruling party itself, which derives *its initial legitimacy not from* elections but from the Revolution. This was not a case of a party taking power but of those who eventually emerged victorious from the revolutionary upheaval creating and periodically remodelling a party in order to retain power.

Its formula for success has been nationalism, combined with previously high levels of growth and sporadic redistribution of the proceeds sufficient to keep alive a flicker of hope in social justice. This has been backed up by a highly centralised, corporatist political structure in which the PRI monopolises all senior officers, controls most patronage but, nevertheless, fosters pluralism and a rotation of posts within the system.

The dinosaurs who have survived to pay homage to Mr Salinas and who may prove a deadweight if he *is* serious about democracy, have never surrendered an election. In his first major speech after being handpicked by Mr de la Madrid at the beginning of October, the Harvard trained Planning Minister publicly repudiated the PRI policy of monopolising electoral office by fair means or foul.

In the northern border state of Sonora, the scene of one of a string of major ballot rigging scandals over the past four years, Mr Salinas told a party rally: "We have to recognise and accept it ... We have had some electoral scrapes. Modern politics demands that we have clean elections, and rejection of the old thesis of "the clean sweep" and *de todas todas* (of all elections we will win all)."

Democracy had very little to do with the way Mr Salinas was chosen within a tradition which empowers the incumbent president, eligible by law for one six-year term, to handpick his successor who is then unveiled to the unanimous acclaim of the PRI's corporatist "three sectors".

These are pyramid-like structures within organised labour, the official peasant union and the so-called popular sector, the *foundations of which are four* million bureaucrats but which include a ragbag from beach vendors and lottery ticket sellers to taxi drivers and a deliberately cash-starved army.

They are formidable concentrations of bureaucratic power, but though they will almost certainly assure the formality of Mr Salinas' election next July, they have little political projection. There are few opinion polls and fewer credible electoral contests. *But careful examination of the* elections of the de la Madrid years, suggests that although the opposition has been unable to mount a credible national alternative, *not more than one in five* Mexicans votes for the PRI, once vote inflation is discounted, and it is not clear how many of them do so voluntarily.

This is one of the main reasons for the emergence this year of a left wing nationalist faction inside the party, the so-called Democratic Current led by Mr Cuauhtemoc Cardenas the son of General Lazaro Cardenas, the 1930s President who nationalised the oil industry and distributed land to the peasants.

The dissidents had argued that PRI candidates for the presidency and lesser office should run openly and be elected by the party rank and file, after a full policy debate, as the first step towards re-establishing the regime's credibility before society.

Mr Cardenas, 53, himself a former state Governor and Senator, has frittered away a good deal of the prestige he won through his stand which forced the first split in the PRI since 1952. He decided against throwing in his lot with the Mexican Socialist Party (PMS) a new left wing coalition, *and is instead to stand for a* coalition of PRI satellite parties.

Though this, in effect, removes what would have been the most *serious challenge to the regime* since President Cardenas stepped down leaving a split party in 1940, it does not really make Mr Salinas' job any easier. For it looks very much *as though only* a vigorous threat to party hegemony will force the PRI to revitalise itself.

Some Salinas strategists do see such a threat. They have identified 100 out of 300 first-past-the-post electoral districts the party is in danger of losing (100 seats *in Congress* and, *from next July*, 200 are parcelled out against the opposition on a proportional representation basis). To put this into perspective, the PRI conceded *eight such seats at the last* Congressional election in 1985.

Most of these districts are understood to be in the more prosperous and politically assertive Northern border states where the right wing National Action Party (PAN) has built up force since 1982.

The PAN is fielding Mr Manuel Clouphier, 53, a pugnacious northern businessman against Mr Salinas. The PMS is running Mr Heberto Castillo, a veteran who combines the left wing nationalist traditions of President Cardinas with the democratic impulse of the 1968 "new left" students movement, which marks a political watershed in Mexico and was brought to a halt by an infamous army massacre in a central Mexico City square (after which Mr Castillo was jailed).

The PAN has shown that it can mobilise process votes but lacks organisational skill and has a political programme more concerned with re-fighting the last revolution - by overturning labour, land reform and secular education legislation - than leading a new democratic one. The left, for its part, has always been too fractious and imitative of foreign revolutions (Russian, Cuban, and now Nicaraguan) to get on with a Mexican one.

Some well-informed observers of the PRI, as well as some party officials, believe that the regime will, *from this position of relative strength against the opposition if not real support within* society, stand conceding significant defeats as a way of galvanising its own forces and re-establishing its democratic credentials.

This is a sufficiently widely-shared perception for General Corona, for example, to have told Mr Salinas: "You have asked us to play fair to admit our losses but I would like to add that where we win we should not give away victory." Mr Salinas replied pointedly, that: "To give away PRI victories would be as immoral as to steal victories from the opposition."

In the Presidential election itself, the test *may* be whether the PRI is prepared to admit that only a third, say, of the electorate has voted at all which, on present real trends in regional elections, would be a high turnout.

Or whether, as it has recently been doing, it inflates the returns, without necessarily altering the percentages for each party, in order to simulate an election.

The man set to become the new president

The first economist

EIGHT OUT OF ten Mexicans are younger than Carlos Salinas de Gortari, 39, who will next year almost certainly become Mexico's new president, the youngest since 1934 when General Lazaro Cardenas fashioned the country into its present shape.

The former Planning Minister himself remarked upon this immediately he was selected by President Miguel de la Madrid as the Institutional Revolutionary Party (PRI) regime's new standard bearer. "I belong to a new generation, the one of national renovation, the one which is modernising Mexico."

Mr Salinas, *like many Mexican* politicians of the third post-revolutionary generation, is the son of a regime politician, Mr Raul Salinas Lozano, who was Trade and Industry Minister 1958-64, and is now a senator for Nuevo Leon, a northern industrial powerhouse and the family's home state, where Salinas junior has started *his* campaign.

Mr Salinas' mother, Margarita de Gortari, was a noted economist, and the former Planning Minister would stand apart in *Mexican public life if it were* only for the extent to which he has promoted women, especially economists.

Mr Salinas will, in fact, be the first economist in the presidency, a post hitherto monopolised - as in much of Latin America - by lawyers.

He got an economics degree *from the National University* (Unam) in the late 1960s, coinciding with the 1968 student movement which was halted by a massacre in Mexico City on the eve of that year's Olympic Games. As a precocious undergraduate he became secretary to senator Gonzalo Martinez Corbala, former secretary to President Cardenas, and later ambassador in Castro's Cuba and Allende's Chile.

During this turbulent period, Mr Salinas' uncle, the distinguished Marxist academic, Mr Eli de Gortari, was driven out of the rectorship of Michoacan University by the regime, and, after the 1968 upheaval, imprisoned.

In 1973 and 1976 Mr Salinas picked up two masters degrees, and in 1978, a doctorate, all from Harvard, the Alma Mater he shares with President de la Madrid, *who wrote him a glowing* academic reference.

The relationship between the two men, crucial to Mr Salinas' selection, began in the mid-1970s *in the Treasury, which the* young future president entered as a 22-year-old analyst.

Mr Salinas became research chief there, when Mr de la Madrid *was appointed deputy* Finance Minister, in 1976, and their paths thereafter have been tightly intertwined, with the younger man rising with his boss - *to planning chief* at the Treasury (1978-79), at the Planning Ministry (1979-81) when de la Madrid took it over, to secretary to the Economic Cabinet (also 1979-81).

Upon Mr de la Madrid's designation six years ago, Mr Salinas became head of the PRI think-tank, the IEPES, at the heart of *policy making*, and then, aged 34, Planning Minister, the youngest member of the Cabinet.

Mr Salinas has an intellectual empathy with Mr de la Madrid *which goes beyond the sycophantic* loyalty ministers habitually express towards Mexico's hugely powerful presidents, and which is based on a thorough *understanding of the structural* economic reform programme this particular President has tried to achieve.

Carlos Salinas de Gortari

Possessed of a formidable intellect, personally austere, Mr Salinas has a huge appetite for work (beaten in three sets of tennis by a junior colleague this year, he reportedly proposed that they immediately go jogging, something he does for up to 15 kilometres a day).

He demonstrated that he has the in-fighting skills to see off heavyweight rivals like former Finance Minister Jesus Silva Herzog, forced out of the Cabinet he dominated until 1986, Energy Minister Alfredo del Mazo, and Interior Minister Manuel Bartlett.

More importantly for the future, Mr Salinas was the only *Cabinet Minister who made some* attempt to defend, in public, in a reasoned rather than purely rhetorical way, the Government's unpopular economic reforms.

This more conventional sort of political skill, the ability to debate, has been almost lost in Mexico, buried under the weight of the PRI bureaucracy. The de la Madrid Government has not tried seriously to win the intellectual argument or fought to popularise its case.

It has instead, like its predecessors, *recycled the increasingly* shop-worn rhetoric of "revolutionary nationalism", which pulls in the opposite direction to the reforms which are meanwhile *introduced by bureaucratic* fiat.

This is the gap into which the son of President Cardenas, Mr Cuauhtemoc Cardenas, stepped by *calling simultaneously for* more democracy and a return to the left wing nationalist traditions of his father, who nationalised the oil industry and is the *dominant political figure in Mexico* this century.

Mr Salinas and his collaborators are a partial exception in that they did take on Mr Cardenas and his followers in public debate this year, and this experience is reflected in the composition of the full Salinas team, made up of an interesting mix of newcomers and *old hands*.

Mr Salinas already counted either as part of his inner circle or as allies influential cabinet members, including the whole economic team, Pedro Aspe, his successor at Planning, Gustavo Petricioli, the Finance Minister, and Miguel Mancera, the Bank of Mexico chief (all of them incidentally, graduates of the Itam national technical university, a bastion of economic orthodoxy against the more left wing Unam economics faculty).

Practically all the younger second-level economic team members are Salinas allies, and a large number of his contemporaries have quickly been slotted into key positions in the PRI structure. spokesman

Mr Otto Granados, *for example*, entered politics as secretary *to* Mr Jesus Reyes Heroles, the historian of Mexican liberalism and a key PRI ideolog for three decades. Mr Granados was later an aide to former PRI Secretary General Rodolfo Gonzalez Guevara, who until recently was a key ally of Mr Cardenas.

Indeed, one of the central characteristics of the Salinas team is its seeming ability to retrieve the major threads of Mexico's recent political tradition, and in particular to take on board politicians associated with the Cardenas legacy. The new head of the IEPES think-tank which Mr Salinas himself headed six years ago, is, for instance, Enrique Gonzalez Pedrero, a veteran *cardenista*, and respected former state governor.

Mr Salinas senior has been instrumental in winning the support of sectors of the *PRI* old guard which had shown itself resentful about being displaced by the new Ivy League-trained technocracy. But Mr Salinas appears only to have actually taken on board a small number of the old "political class".

The most suggestive *figure* here is Fernando Gutierrez Barrios, chief of Mexico security and intelligence for nearly 25 years, useful presumably because he knows the system sufficiently intimately to help prevent it from conspiring against Mr Salinas' plans to modernise and democratise it.

David Gardner

A women's elementary class in reading and writing. Huge strides have been made in literacy

Education

Less to spend on more students

IN HIS submission of the 1988 budget to Congress, President Miguel de la Madrid makes a pointed comment about education: "A better Mexico is only conceivable with Mexicans better educated."

The quality of education, especially higher education, is a highly sensitive topic. The government would like to begin laying much more emphasis on quality than quantity in the universities. However, it has run up against fierce resistance, not least among the students who, in a series of strikes and demonstrations over the past 13 months, have challenged the principle of greater selectivity.

This was the first outbreak of student unrest since 1968, and centred on Mexico City's National University (Unam) which accounts for a quarter of the nation's 1.2m students. The protests, significantly, followed on the heels of similar protests in Paris, and lasted from November 1986 through to February this year. Since then, there has been an uneasy stand-off.

The Government has retreated in its plans to introduce greater selectivity and raise fees in the state universities to help their stretched finance. New proposals will be put to a special congress of Unam students and faculty members in the coming months.

However, the Government appears determined to win its point that Mexico can no longer afford the luxury of ignoring higher education standards. During the height of student protest *(the only sustained street demonstrations* under the de la Madrid administration) the authorities wavered in their attitude. The Government finally stood down on the advice of Mr Manuel Bartlett, the Interior Minister, who was then concerned about his chances in the race for selection as the PRI presidential candidate.

For several decades successive Mexican governments have been devoting large sums of *money* to education: enshrined in the constitution is the right of every citizen to free education. At times Mexico has been spending almost 4 per cent of GDP and 14 per cent of the budget on education. Indeed, Mexico's conscious decision to eschew large-scale military and defence expenditure in favour of social spending has been one of the hallmarks of government.

In a country with such a widely-dispersed population, huge strides have been made in literacy. Almost 25m are in the schooling system now, with perhaps 5 per cent still falling outside. *Despite these efforts*, roughly one in five pupils fails to complete schooling at a primary level, with the percentage rising to nearly a third in the State universities.

The traditional emphasis has been on getting pupils into the system. This has applied at all levels: in the two-fold belief that *this accelerates the modernisation* process of Mexico and provides the greatest opportunity to all social groups for mobility. The practical consequence of this ideal has been a "*massification*" of education.

State universities in the major cities, and especially Mexico City, absorbed an ever-increasing number of students. But this put tremendous strain both on student/teacher ratios and on state financing. At the Unam, undergraduate and pre-university student numbers reached 320,000 by last year. In general, the State funded over 90 per cent of the federal universities' budgets and 60 per cent of the State universities' budgets.

But this funding has become increasingly difficult to maintain with financial stringencies imposed by the debt crisis. In real terms, spending on education has declined, whether primary or higher. Put crudely, the government has less money available to spend on more students. At the same time, academic salaries have not kept pace with comparable pay in the State or private sector. In 1981 a university lecturer's monthly salary was worth $1,112 while now it has fallen below $220.

As a result, academic standards have fallen, and staff have tended to switch from the State to the better paid and more manageable private universities and institutes. Almost a third of the staff in State universities have only two years teaching experience.

There are now 120 private universities and higher education institutes out of a total 260 throughout Mexico. They only account for 14 per cent of total pupils, but these pupils represent an elite. Most prestigious now are places like *Itam, the Mexico* City-based National Technology Institute and the Monterrey-based Institute of Technology - the latter being the first to establish a serious link between industry, business and the academic world.

The issue of reform in the State universities has been complicated by successive governments deliberately chanelling the energies of the left-wing opposition into the academic community. As a result, the universities have become an enclosed world of ideological intrigue. Thus when reforms were proposed at the Unam in September 1986 - as a test case for other state universities - a controversy was immediately sparked off.

Protest might have been avoided if the reforms had been discussed more openly, since a majority of the academic community conceded the need *for* change.

The changes proposed included a bid to raise academic standards by raising requirements for entry and for obtaining degrees. For instance, it was proposed that degrees be taken in three years on the basis of an average of eight passes out of ten. *The* average has been four passes over a four year period.

At the same time, *proposals* were put forward to raise student fees to permit the university a degree of autonomy from government finance and cover ever-rising costs. A number of well-known leftist academics supported the idea behind the reforms. However, the students, especially those preparing to enter the Unam (*who number* some 100,000) united in protest at the breech of two principles - the universality of university education and the obligation of the State to bear the cost.

The challenge to resolve this issue is going to be laid firmly at the feet of the next administration. It is an issue which can only be ducked once. If this happens again, then Mexican higher education risks getting out of step with the needs of both society and the economy.

Robert Graham

Bad luck has played a major part in keeping Mexico from high growth

On the brink of hyperinflation

AFTER FIVE years of unparalleled effort to restructure the *bankrupt economy it inherited* at the end of 1982, the de la Madrid Government has not managed to achieve *the results it had some* right to hope for. Since the 1982 financial collapse there has been *no growth, investment has fallen* 20 per cent in real terms, and real wages have been halved. Meanwhile, the foreign debt of $103bn, the second largest in the developing world, is being serviced in full, even though the market values it at about 50 cents on the dollar.

With annualised price rises running at 142 per cent to the end of October, Mexico is already on the brink of hyperinflation, the darkest cloud on its economic horizon. The budget deficit has climbed back to where it was in 1982 in nominal terms, and though real government spending has been cut by a huge 10 per cent, interest payments on the foreign and domestic debt eat up 71 per cent of tax revenue, and are *one of the principal* causes of inflation.

Bad luck has played a major part in keeping *Mexico from* returning to the sustained high growth it used to enjoy, of average 6.6 per cent rises in GDP per year from 1940 to 1981, a record unique in the developing world. The September 1985 earthquakes cost the country 2 per cent of GDP, on conservative estimates. The 1986 collapse in the price of oil, Mexico's main export, cost the equivalent of 6.7 per cent of national output, or $8.5bn.

Under the circumstances, the fiscal and, even more, the balance of payments performance has been remarkable. But now the Government's two most obvious recent successes, the threefold rise in non-oil exports and the vertiginous rise in the fast-developing stock market, are both threatened by the worldwide market crashes of October.

The prospect internationally of anything from a downturn to a recession, especially in the US market which buys two-thirds of *Mexico's goods, bodes ill* for the Mexican export drive.

The speculative head of steam worked up by the Mexican bourse meant it was in any case due for at least a major correction. But its collapse ended a 15-month inflow of perhaps $8bn in repatriated flight capital. Capital *flight* has resumed, bringing speculative pressure on the peso which forced the bank of Mexico to withdraw from the "free" market for the dollar in mid-November, in order to safeguard the $15bn stockpile of foreign *exchange* reserves it has accumulated.

This forced a devaluation of the "free" rate for the peso against the dollar of around 40 per cent. About 80 per cent of *Mexico's trade and all its $103bn* foreign debt transactions are done on the "controlled" rate, *which has been kept on its* "crawling peg" of daily adjustments and in any case retains a cushion of *"undervaluation" of* about 40 per cent from last year's cumulative devaluation of 148 per cent.

Nonetheless, much of the public assumes there has been a full devaluation and already widespread price rises to offset it will inevitably feed through into inflation and bring pressure on the controlled rate.

Interest rates on the benchmark three-month treasury bills which had dropped from 107 per cent in October 1986 to below 96 per cent in mid-October this year, *shot up 28 points in the six* weeks to the end of November. This raises the cost of government borrowing over a year by $2bn-3bn - over 1.5 per cent of GDP, or the cost of a medium-force earthquake. *At the same* time, if rates stay at prohibitive levels for most private borrowers, this cuts across the intent of August's relaxation of the fierce credit squeeze, whereby the Government for two years had monopolised up to 93 per cent of all bank credit.

President de la Madrid and his economic team have nevertheless persevered with their strategy of long-term structural reform. This has always had its *risks*, because of the impoverishment it inflicts on wage-earners and because it requires at least another three years to work. Mr de la Madrid's choice of Mr Carlos Salinas de Gortari, the 39-year old former Planning Minister, to succeed him, is thus a logical attempt to secure continu*ity of policy, but it carries with* it a political price.

It had become the norm with each *six-yearly change of Mexican* presidents, who cannot by law be re-elected, that the newcomer *fostered the illusion of* renewal within the 70-year old regime by expressly repudiating his predecessor's policies. Mr Salinas, the architect of this Government's economic policies, will not have this expedient to give his own administration a flying start, at a time when backing for the PRI regime is at an all-time low.

The main planks of the de la Madrid-Salinas reforms - which *given the entrenched Mexican* tradition of a highly-protected state-dominated economy, amount to a would-be revolution - have been:

● **The overhaul of public finances:** *by three mammoth* restructurings of the foreign debt; cuts in the budget deficit *equivalent to 10 per cent of GDP* in real terms; fiscal reform linking taxes to inflation and favouring equity over debt financing; slashed subsidies and indexed public sector goods and services.

● **Privatisation:** through the return to private hands of 339 companies owned by the banks, expropriated by President Lopez Portillo in 1982; the sell-off of 34 per cent of equity in the banks themselves; and divestiture of what the government claims will by next year be 696 fewer State enterprises than the 1,155 it inherited.

● **The rebuilding of savings:** through positive real interest rates, a sharply undervalued peso, and developing capital markets, as instanced by the astonishing 629 per cent stock *market rise in the nine* months to the end of September, all intended to attract capital repa*triation.*

● **Modernisation and diversification:** by promoting non-oil exports through the wholesale lifting of protection and by depressing domestic demand; by maintaining a competitive exchange rate; and by offering easier access to foreign investors, through, for example, debt-to-equity swaps.

This is a substantial, but now very fragile and contested achievement.

To begin with, only now that it is in danger of unravelling has *the Government* started to set out reasoned, public arguments to convince Mexicans it is worth *persevering to try to consolidate* it. Until recently, the Government relied as much on divine *intervention (the earthquakes)* or the impersonal hand of the market (oil) to dramatise the "there is *no alternative*" nature of its policies.

Second, aspects of the strategy in itself are *questionable*. The Government argues, for instance, that its peso depreciation and accelerated import liberalisation policies cancel each other out in terms of their effect on prices.

The evidence suggests that, in fact, marginal, or "distress" exporters are being subsidised by the degree of undervaluation of the peso, while the monopoly structure of Mexican industry and distribution simply adds the lower price of imported goods into its inflated margins.

The most flawed part of the strategy is privatisation, the *stated goal is* a strong *and* efficient rather than big and over-extended State. Yet it is reliably *understood that only 100 or so* companies have actually been sold off. The corporatist interests which prop up the regime are, furthermore, often pandered to, while the largely technocrat-staffed Government talks theoretically about market forces changing the "who's who" of both sides of industry.

The *powerful* oil workers' union leadership, for instance, which had the right to subcontract 40 per cent of Pemex, the State oil company's construction and maintenance work taken away by this Government, gets on average between 25 and 28 per cent of the value of the con*tracts anyway, according* to two private contractors with Pemex.

The basically pro-regime lead*ership of the private sector*, meanwhile, was one of the main beneficiaries of this year's *sell-off of bank equity. Shares in* the main banks were pre-placed with often politically selected *investors at vast discounts,* and subsequently rose between 1,000 and 3,200 per cent, contributing heavily to the speculative environment that led to the stock exchange crash.

Yet there is no mistaking the serious intent of the overall strategy. The Echeverria and Lopez Portillo administrations, faced with balance of payments crises at the end of their terms, closed the trade frontiers. In 1986, this Government, which till May this year had received net new foreign credit equivalent to the sum the banks provided for Mr Lopez Portillo in September 1981 alone, did the opposite and opened its frontiers.

This revealed a major structural achievement. Whereas Mexico's terms of trade deteriorated 37.5 per cent overall in 1986, its non-oil terms of trade suffered only 4.3 per cent. It was able to take advantage of this because now 12.3 per cent of manufactures were being exported against 3.8 per cent in 1982.

Frontline industries found they could at least partially hold back the recession. Construction, for instance, shrunk 12 per cent in 1986 but the cement industry fell back only 4.6 per cent due to a 52 per cent increase in exports. Car industry output plummeted 31 per cent but engine output stayed constant because of an 11 per cent rise in foreign sales.

This explains in large part why the contraction in GDP was held to 3.8 per cent, or about half the oil shock once the multiplying effect of tax losses is factored in.

But Mr Salinas, the economic strategist, will almost certainly try to offer more than *mas de lo mismo* (more of the same) a phrase used in widespread judgement on his selection, which in Spanish matches Miguel de la Madrid's initials, in order to legitimise himself in the eyes of the country. His clearest statement so far has been on the need for democratisation. In economic policy, assuming constancy on the fundamentals of structural reform, his clearest path forward would appear to be by attacking the two other big "Ds": Debt and Disinflation.

A more radical stance on the foreign debt is already being signalled. Officials increasingly argue that the banks cannot be expected to be paid "double interest", or full interest on capital marked down to half price in the secondary market. The debt-equity swap programme, which depends on the secondary market discount, was suspended last month, essentially to underline this point.

Almost simultaneously, Dr Pedro Aspe, Mr Salinas' successor at planning and his closest *economic adviser, told Mexico's* College of Economists that "the moment has arrived *to design mechanisms which reduce the* nominal value of the (foreign) debt to its market value, so that it is the *debtors who capture the* total amount of the discount."

On disinflation, the more *urgent task, a variant of the* "heterodox shock" programmes which Brazil, Argentina, and Israel have implemented with mixed results, is becoming a more distinct possibility as the weeks go by and gradualist approaches to combatting inflation appear to be failing.

The "heterodox" theory is based on highly orthodox management of three key variables. It holds that if relative prices are in rough alignment; if the budget, net of the purely inflation-caused portion of the interest bill, is in rough balance (accepting, as the IMF reluctantly did last year with Mexico, that it is inflation which is causing the bulk of the nominal deficit and not vice versa); and if the real exchange rate has been managed to competitive equilibrium, then the inflation left is "inertial".

If the key variables are whizzing round at more or less the same speed, in other words, you stop them, wipe out the numbers (7-8 per cent a month inflation in Mexico's case) and send them on their way again. A wages and prices freeze combined with a fixing of the exchange rate, preferably dramatised by a new currency shorn of some zeros, and the major portion of inflation *should* disappear without recession.

The Salinas/Planning Ministry *team had just such a plan* rejected in Cabinet in the autumn of 1985, it is reliably *understood, while Dr Aspe stud*ied under one of its main international theorists, Professor Rudiger Dornbusch of the Massachussetts Institute of Technology.

President de la Madrid has consistently rejected the Azteca plan, as it has been dubbed. Mr Salinas' advisers regard it with great caution, particularly after the ignominious failure of the Cruzado plan in Brazil, and because of doubts about whether it would work in a country like Mexico which is still reeling from a succession of external shocks.

It is regarded as a last cartridge, but one which may eventually have to be spent to beat back hyperinflation and a ballooning budget deficit.

David Gardner

Balance of payments

	1986 US$m	Jan.-June 1986 US$m	Jan.-June 1987 US$m	Change 1986/1987 %
I. Current Account Balance	−1,270.4	−1,144.2	3,122.4	N/A
A. Trade Balance	4,598.6	1,746.5	4,760.0	172.5
1. Exports	16,031.0	7,776.6	10,187.5	31.0
2. Imports	11,432.4	6,030.1	5,427.5	−10.0
B. Tourism (Net)	1,171.5	707.5	982.8	38.9
C. In-Bond	1,285.1	649.1	738.3	13.7
D. Frontier Transactions (Net)	−301.4	−122.5	−139.6	−14.0
E. Interest Payments	−8,342.7	−4,386.5	−3,854.9	−12.1
F. Other	318.5	261.7	635.8	143.0
II. Capital Account Balance	2,270.5	576.6	3,584.4	N/A
A. Foreign Direct Investment	905.5	323.5	816.8	152.5
B. Total Indebtedness	250.2	−1,068.3	2,959.8	N/A
1. Public Sector	1,694.6	−296.9	3,489.4	N/A
(a) Short-term	814.9	−155.8	−586.4	276.0
(b) Long-term	1,242.9	−85.3	4,527.4	N/A
(c) Debt-equity swaps*	−363.2	−55.8	−451.6	709.3
2. Private sector	−1,444.4	−771.3	−529.6	−31.4
(a) Short-term	−966.9	−564.4	−27.0	−95.2
(b) Long-term	−477.5	−206.9	−502.6	142.9
C. Other Capital	1,114.8	1,321.4	−192.2	N/A
III. Errors and Omissions	−210.3	−857.2	90.6	N/A
IV. Reserve Change**	789.8	−1,424.8	6,797.4	N/A

*Public Debt/Equity swap Liability Reductions.
**Includes demonetization of gold and silver and valuation adjustments.

Main products traded

EXPORTS	1985 %	1986* %	IMPORTS	1985 %	1986* %
Crude oil	61.4	34.8	Parts for electrical installations	2.3	3.1
Automobiles and Transport Equipment	7.3	14.5	Automobile parts	2.2	2.1
Chemical Products	3.1	3.9	Butane and Propane Gas	2.4	1.5
Coffee	2.3	5.1	Soybean seeds	2.1	1.5
Frozen Shrimp	1.5	n.s.	Sorghum	2.0	0.7
Silver (in bars)	1.2	1.9	Corn	1.9	1.4
Iron and steel	1.1	2.8	Pumps, motor pumps and turbo pumps	1.9	1.4
Fuel Oil	1.0	1.0	Ships, parts and marine equipment	1.8	2.9
Textile and Leather goods	0.9	2.1	Metalwork machinery	1.6	2.0
Tomatoes	1.0	2.5	Cellulose paste for paper	1.4	1.7
Cattle	0.9	1.6	Generators, transformers and electrical motors	1.1	1.3
Petrochemical Products	0.5	0.5	Agricultural fertilizers	0.9	0.7
Cotton	0.4	0.5	Powdered Milk	0.8	1.0
Natural Gas	–	–	Sugar	n.s.	n.s.
Others	17.4	28.8	Others	77.6	78.7
TOTAL	**100.0**	**100.0**	**TOTAL**	**100.0**	**100.0**

*Preliminary n.s. Not significant
SOURCE: Banco de Mexico

Japanese investment

Relationship of mutual benefit intensifies

THE STONE unveiled by President Miguel de la Madrid at the inauguration last month of the Nikko Hotel hails the project as "An example of co-operation between the peoples of Mexico and Japan".

At a cost of rather more than $110m the new facility with its soaring 450-foot round tower overlooking Chapultepecpark is a symbol of Japan Inc's ambition to increase its already substantial involvement in the development of the country's economy and Mexico's hopes of the intensifying relationship continuing to help generate foreign exchange earnings, growth and employment.

The joint venture between Banco Mexicano Somex, with a majority 51 per cent stake, and a group of 54 Japanese companies, was conceived in the halcyon days of 1980. It is a reflection of Japan Inc's long-term strategic thinking and perhaps uncharacteristic Mexican optimism that implementation of the project began in the dark recessionary days of 1984.

Designed by architects of the *Ohbayashi Company*, the luxurious establishment has some 750 rooms including the first suites especially designed for Japanese taste and is the first to be completed in Mexico City since the economic crash in 1982. The assumption is that a great many more Japanese citizens will be visiting Mexico than the 50-60,000 estimated for the current year of whom about 20 per cent will be tourists, according to Mr Mark Wakatu, the Executive Director of the Nikkon Hotel, from Japanese Airlines which has the management contract for it.

The annual rate is expected to rise to 100,000 in the next couple of years. One of the Government's objectives is to attract that number of Japanese tourists. Other Japanese interests are known to be planning a $200m tourist development on the Pacific coast but Mr Wakatu believes that the expected increase in the number of his compatriots visiting Mexico in the near future will be mainly business orientated.

Close and, indeed, warm relations developed between the two countries are explained not only by the fairly obvious reciprocal economic benefits but, strangely, also by sentimental factors stressed by Japanese and Mexican officials alike.

The first delegation to visit Mexico from Japan before it *closed its* doors to the outside world came in the 1630s - catholic converts on their way to Rome. *Next year, meanwhile,* will see the centenary of the treaty of friendship and commerce between the two countries of particular significance to the Japanese because it was an equal one unlike those it was forced to sign under pressure with Russia, Britain and the US in that era.

At the turn of the century Japanese migrated to Mexico, ironically, to escape poverty giving the country a population of Nipponese extraction now numbering 10,000. There are some 40 Japanese restaurants in Mexico City which are of exceptional quality. And over half the pupils at the Japanese Lycee are Mexicans including - a little known fact - the children of Mr Carlos Salinas de Gortari, the presidential heir apparent.

A tighter nexus with Japan has emerged as one of the main features of the country's foreign and commercial policy. It has long wanted to lessen the almost overwhelming hold on its economy maintained by the US, both as its main petroleum market and as the predominant investor in Mexico. The decision to set a limit of 50 per cent as the proportion of oil exports to any one consuming state was directed implicitly at its powerful neighbour.

Over half the pupils at the Japanese Lycee are Mexicans, including Mr Gortari's children

The abrupt manner in which President Carter in 1977 broke *off negotiations on the import of* natural gas after Mexico refused to lower its price still rankles. As *it was, US imports of 181,000* barrels a day last year were slightly more than half of the *country's exports. At the same* time, cumulative investment by American companies at the end *of March 1987 amounting to* $11.49bn accounted for 64.6 per cent of the total of $17.79bn *made by foreign business*, only slightly lower than the 68 per cent share it had five years *before.*

Mexico's aspirations to reduce dependence on the US, and also *to obtain the* most advanced manufacturing technology, have been matched by Japan's policy of diversifying its sources of energy away from the increasingly volatile and explosive Gulf region of the Middle East. As the producing state with the fifth largest proven reserves in the world, Mexico, for obvious reasons, now figures larger than ever in Tokyo's strategy of establishing more secure sources of supply from within the Pacific Rim.

The volume of Mexican shipments of oil to Japan has risen progressively, reaching the present level of 180,000 b/d last year or 14 per cent of total sales abroad. Moreover, Japan has provided a ready market for non-oil exports - silver, non-ferrous metals, shrimp, salt - now worth about $600m annually.

It is one of the few countries to enjoy a surplus in its trade with Japan. In 1986, a year of depressed oil prices, Japanese sales to Mexico worth $1.03bn were exceeded by imports from it valued at nearly $1.44bn.

Last year Japan received rather more than 5 per cent of its crude oil *requirements* from Mexico compared with rather less than one per cent in *1980.*

Its interest in improving access to much greater supplies was emphasised by the $1bn credit facility from the Japanese Export-Import Bank, with half of it devoted to a *48-inch pipeline* across the isthmus of Tehuantepecto on the Pacific coast, the salt dome project which will triple Mexico's inadequate oil storage capacity and the expansion *of the* refinery at Salina Cruz.

Aid worth $120m previously devoted to the development of *the ports of Lazaro Cardenas and* Guaymas have led to speculation that the grand Pacific design *goes beyond Japan's oil require*ments involving fuller utilisation of the largely defunct railway line *from the northern border to* Guaymas, possibly involving the transportation of copper when production at the Caridas complex gets under way.

In addition, $260m of the Export-Import Bank loan has been assigned to the expansion of the Sicarrtso plate mill at *Lazaro Cardenasas complex*, a project in which Nippon Kokan is involved.

The balance of the facility is for the development of export-orientated industries - with the emphasis on auto parts, textiles and garments - in conjunction with a World Bank programme which will concentrate on working capital. However, while most of the World Bank money has been committed with alacrity, the Japanese funds are virtually untouched because, in dollar terms, the money is expensive and borrowers claim that they *can get cheaper credit elsewhere.*

In its totality, however, the bulk of the $1bn facility is not *tied to purchases from Japan* - which, it is worth noting in this context, is owed 17 per cent of Mexico's debt compared with the US share of 23 per cent. Its banks, however, contributed disproportionately to the debt rescheduling package earlier this year.

Strategic considerations apart, it would have been surprising if Mexico, as a leading oil producing state with an enormous domestic market and also preferential access to other Latin American countries, had not become a major lure for Japanese companies.

In the 1982-7 period their cumulative total investment rose from $733m to $1.55bn, putting Japan in third place behind the *US and West Germany* (with $1.42bn).

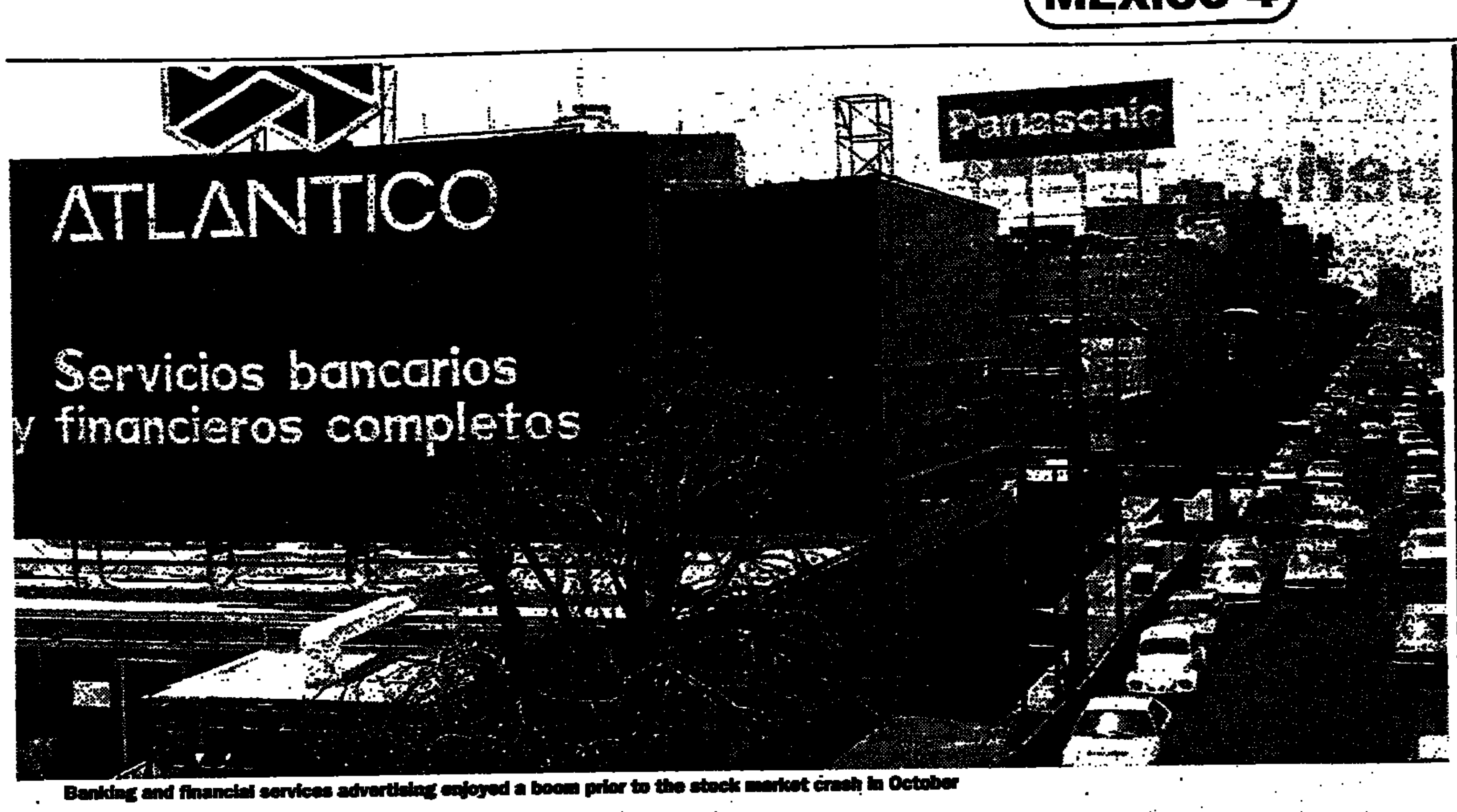
Nissan Mexicana's operation *dates back to 1966 and its outlay* of about $600m accounts for nearly half of all Japanese *investment now involving no* less than 150 companies. Honda has a substantial commitment of *nearly $50m for a motor cycle* manufacturing plant. In addition, the $500m plant completed by Ford at Hermosilla just over a year ago to produce compact cars could be regarded largely as a Japanese venture by Mazda, albeit one directed at the US market and more closely related to *maquillador* in-bond industry.

Mexico now appears to be a bigger magnet for Japan than Brazil which is reported to have lost much of its allure with as many as 200 ventures there said to have lost money.

With the strengthening of the yen against the dollar and the *devaluation of the peso*, the attractions of Mexico have been enormously enhanced by the cheap labour and backyard access to the US market offered by in-bond manufacturing.

Japan's interest is by no means a recent phenomenon. Its companies now have established 35 *such plants*, 20 of them offshoots of subsidiaries in the US. At the moment they are less than 3 per cent of the total, but account for a disproportionate amount of employment. The number looks as if it may rise significantly in the near future and bring about the danger of more friction over trade if the Japanese merely avail themselves of cheap Mexican labour while using their own rather American-made components.

Richard Johns



Banking and financial services advertising enjoyed a boom prior to the stock market crash in October

Commercial banks

Unharmed by the earthquakes

DESPITE THE prolonged recession and credit squeeze afflicting the country, "we have been able to serve the economy quite well," says Mr Fernando Solana, Chairman of the Association of Mexican Banks.

His office is in the Palacio de Iturbide, the splendid Baroque edifice which bears the name of the self-proclaimed, short-lived "Emperor", who briefly held power in 1822-3.

It has been the headquarters of Banco Nacional de Mexico (Banamex), the largest of the commercial banks, of which Mr Solana is the director general.

The architectural masterpiece was unharmed by the earthquake in 1985. The banking system, meanwhile, has survived with reassuring strength the economic convulsion of 1982 and its aftermath, even if only a handful of its institutions have the solidity of Banamex.

"Not one single bank has had a run, failed or has had to seek government support," points out Mr Ernesto Fernandez Hurtado, Chairman of Bancomer, the second largest commercial house.

By all accounts non-performing loans are not a serious problem. Central bank officials say that commercial banks have been successful in reducing the average from about seven per cent of total liabilities after the crisis to 2.5 per cent, although some estimates put the average at four per cent or so, about the overall international level.

It might have been a different story but for the rationalisation of the system after its nationalisation by President Jose Lopez Portillo in 1982. No less than 59 institutions were merged and consolidated into 19 - six of them national in their operations, eight multi-regional and five regional. The fact that they are all State-controlled, ensures, of course, that none would be allowed to go to the wall.

Although the bigger banks were allowed to swallow only a few of the smaller fry, with Banamex rationed to just one, the banking system which emerged still remains very concentrated.

According to a report by the Office of the President recently submitted to the Congress, Banamex and Bancomer this year will account for nearly three-quarters of collective profit. Together with Banca Serfin and Banco Mexicano Somex, their share of deposits would amount to a similar proportion.

While the presidential report seemed aimed mainly at countering criticism of monetary policy and restrictions on credit to the private sector, it acknowledged that the health of five smaller brethren was in need of some improvement.

Commercial banks in Mexico have been meeting with stiff competition for funds. It has meant, in effect, that in real terms their deposit base has scarcely increased since the beginning of the financial crisis just over five years ago.

Commercial Banks' Total Assets

(Billions of pesos)

	1982	1983	1984	1985	1986
Bancomer	746.1	1,431.4	2,369.3	3,376.1	7,809.9
Banamex	770.6	1,511.4	2,606.0	3,626.7	9,214.9
Banca Serfin	334.4	594.3	987.2	1,593.1	3,736.8
Banco Mexicano Somex	338.8	585.8	852.9	1,339.9	3,051.9
Multibanco Comermex	311.2	503.3	703.7	1,080.3	2,390.5
Banco Internacional	192.3	407.8	540.9	849.6	1,937.4
Others	580.8	1,261.0	2,168.7	2,840.6	5,204.9
Total	3,274.2	6,295.9	10,220.7	14,708.3	33,348.3

SOURCE: Boletin de Indicadores Financieros de Sociedades Nacionales de Crédito, Comisión Nacional Bancaria y de Seguros.

Together with Draconian restrictions on lending imposed by the government through the central bank, lack of resources has severely limited what the banks see as their role in providing the private sector with funds to resuscitate and develop the economy.

Local currency deposits totalling M$2,047bn at the end of 1982 rose to M$8,093bn at the end of 1985, nominally a mere fourfold increase. In dollar terms (taking the average between the controlled and free market rate), it constituted a rise of only 18 per cent from the equivalent of $16.7bn to $19.7bn.

By the end of 1986, deposits swollen by inflation nearly doubled to M$15,605bn but in dollar terms that represented a fall of 14 per cent to the equivalent of $16.9bn. This year, up until the end of August (the latest date for which published figures are available), they rose to M$28,461bn, up 12 per cent to the equivalent of $19bn in dollar terms. But in real terms, measured against mounting inflation, there was a fairly substantial decline.

Falling real incomes have, of course, been a consistent cause of the stagnation over the five year period, increasingly and particularly since the summer of 1986 up until the stock market crash in October. Another factor has been the loss of substantial market share to the proliferating brokerage houses together with the mutual venture capital funds which they serve.

In 1982 a mere eight per cent of Mexican savings were handled by them. This year, until the bubble burst, the proportion was reckoned to be as much as a third of the total. (Since 1984 the reorganised nationalised banks have been precluded from the brokerage business.)

The "greater part" of the money pumped into the balloon came from repatriated savings, estimates Mr Solana of Banamex who estimates the amounts which flowed in from abroad to have been in the $3bn-$5bn range. While disapproving of the speculative nature of the boom, senior bankers appreciate the necessity for non bank financial intermediaries including the brokers for Mexico's development as a capital market.

Dr Jose Juan de Olloqui, Director General of Banca Serfin said: "We feel that a healthy financial market requires competition and complimentarity among the players, in order to benefit the users of the market and the economy at large." He shares the view that the brokerage houses must inevitably lose some of the market share they gained as a result of the crash and calculates that the commercial banks enjoy a 70 per cent share of the financial market.

Mr Gilberto Escerbado, Chairman of Somex, also sees the brokerage houses as an essential part of the system "which should have been here a long time ago". The problem was that they pushed a very thin market far too high, he says.

Another major magnet for available funds has been the increasing volume of Treasury bills - known as *cetes* - issued by the government to cover its yawning budget deficit and rates of interest which have been very much in contention with those for time deposits which are regulated by the central bank.

Cetes are, Mr Solana acknowledges, "the best investment today". As such they have been an attractive Treasury investment but as yet they account for a negligible part of their income. The rates offered for them are essentially related to the general economic situation and public finance, Dr de Olloqui points out.

From the beginning of 1987 until the end of September, meanwhile, the value of cetes held by the private sector - individuals and companies - increased from a little less than M$3bn to M$12.6bn. Its share of total outstanding bills - which rose two-and-a-half fold in this period - went up from 33 per cent to 55 per cent in this period.

Of equal concern to the banks has been the *enjace* - made up of a basic 10 per cent reserve requirement deposited with the central bank plus obligatory lending provisions set in 1985 which meant that they were able to advance freely only 10 per cent of new deposits to desired clients up until August of this year.

The restrictions led to unprecedented public criticism of the State's monetary policy at a banking conference in June in the presence of Mr Gustavo Petriccioli, the Finance Minister, and Mr Miguel Mandes, the Governor of the central bank. The effect of the strict controls aimed at directing available funds to the Government and favoured development sectors was that credit advanced to the public sector arose from about 36 per cent of the outstanding amount at the end of 1982 to 53 per cent at the end of August this year. Then advances to it totalled M$18,347bn compared with M$14,452bn owed by the private sector.

Revised rules introduced in August eased the credit squeeze making it possible for the banks to increase the amount of funds available to the private sector. Mr Fernandez of Bancomer former central bank Governor and one of the foremost critics of the restrictions (he also happens to be an uncle of President Miguel de la Madrid) concedes that the adjustment has led to a more equitable distribution of financial resources but suggests that it has not done enough to enable the banks to fulfil "their paramount role" in promoting economic activity and to compete "with other financial institutions with less responsibility".

Profitability of the bigger banks at least has not been adversely affected. Last year Banamex and Bancomer recorded profit increases of 185 and 155 per cent respectively in pesos terms compared with an inflation increase of 105 per cent. Banca Serfin's pre tax profits amounted to 128 per cent of its capital (the minimum requirement is 3.5 per cent of assets at risk).

For somewhat arcane historical reasons only Citicorp is permitted to take deposits amongst the foreign banks. Several hundred others still have representative offices but understandably have little interest now in lending in foreign currency.

Nevertheless, despite the absence of competition from them in the domestic market the nationalised system has showed a surprising amount of competitiveness and innovation precisely because, in the words of Dr de Olloqui, "we are measured more directly and within the same parameters".

It has done so in the face of what is, despite improvements, still a very over-regulated system. Permission is even required for an authorisation for the purchase of micro computers.

The main benefit of the 34 per cent privatisation of the leading banks earlier this year has been the wider perspective brought by the introduction of board members from the private sector. "Now I know what the market thinks about my bank," comments Mr Solana.

Richard Johns

Stock exchange

Meteor's inevitable crash-landing

IN A YEAR which has made world stock market history, Mexico City's fast-growing, volatile stock exchange has written itself a spectacular footnote. For the second year running, it was the top performing bourse in the world - at least until October. The *bolsa* by then had been sucked into its own particular dizzying spiral and would by most analysts' reckoning have crash-landed whatever happened in international markets.

In the nine months to the end of September, the 49-stock index rose 629 per cent, 329 per cent in dollar terms, increasing in the third quarter alone more than any other market in the year as a whole. In the world bourse league table, Mexico hoisted itself out of nowhere to jostle with more widely recognised emerging markets like Malaysia and South Korea, lifting total capitalisation from $6bn to a pre-crash high of $36bn in two years ($22bn, or 17 per cent of Mexican GDP, was wiped off share values from October 5 to November 20).

In a longer time frame, the index had increased 510 times over from December 1, when President Miguel de la Madrid took office, to the end of September this year. Along with the growth of non-oil exports, this made the bolsa one of only two stars in a firmament made otherwise opaque for this administration by the depth of the foreign debt crisis and cost of the consequent restructuring.

From the investor's point of view, the bolsa for the first time offered an attractive alternative to Mexicans' traditionally favoured instrument, the dollar, at a time of high inflation.

Abacus saleswomen and artisans, footballers and fish merchants, gambled their savings on the market for the first time. The bolsa rivalled Mexico's arcane presidential succession, or *destape*, as conversational topic of the year. It has served as a vehicle for the repatriation of perhaps $10bn in flight capital, and has been exhibited by the Government, with what always seemed hubristic foolhardiness, as an index of confidence in its policies.

A January 1, 1983 peso, kept as a peso under the mattress, would by November 20 this year have lost its value against inflation 21 times over. In a one month deposit account in the bank, that peso would by now have lost around 13 times its value. But invested in free market dollars it would have appreciated nearly nine times to October 5, the date the bolsa index hit its all-time high. If the same peso had been invested in the market to that date, and using the index as a rough guide, it would have been worth 48 times more in dollar terms to its owner.

If, however, its owner had decided such yields were fool's gold and recalled the local adage that "nobody ever lost money in Mexico by betting on dollars", the switch into dollars would give a 15-fold increase to November 20 (the "free" or speculation dollar surged 40 per cent on November 18 when the Bank of Mexico decided to safeguard reserves and withdraw from the market).

Fears of devaluation, meanwhile, caused a stampede back to the bolsa in search of bargain-basement assets. On November 18 the index rose 27 per cent, and 18 per cent the following day, after plummeting 76 per cent from October 5. The January 1, 1983 peso, had it stayed stuck in the stock market, would have recovered, but only to increase its overall worth in dollars 12 times.

Subjective calculations like these will probably now decide whether the recent crash will stunt the promising development of Mexican capital markets, as well as whether even the dollar of diminished value will be re-enthroned as Mexicans' main investment instrument, leading to renewed capital flight.

Until this spring the fundamental reasons for the headlong rise of the bolsa index were the same as those fuelling market rises across the world: liquidity, corporate restructurings, privatisations and internationalisation.

The latter dimension in Mexico's case arises not from interconnection with other markets but from the rapid introduction of new instruments and star performance of "export stocks", in companies which have taken advantage of Mexico's export-led growth strategy and compensated for stagnant domestic demand with foreign sales.

Companies like Vitro, the blue chip glass monopoly which exports 20 per cent of its output, Penoles, the world's leading private silver producer, or Cemex, the leading cement producer which, like other companies in the sector, converted what turned out after 1982 to be huge new overcapacity to exports, all rose sharply this year and last. So did "restructure" stocks like Alfa, Mexico's largest industrial holding company, where international creditors are converting around half its $2.7bn foreign debt into about half the group's equity, and Cerveceria Moctezuma, the brewery which by suspending payments on its foreign debt got substantial chunks of it written off.

Abacus saleswomen, footballers and fish merchants, gambled their savings on the market

Even more particularly Mexican reasons for the bolsa boom fell into place in July last year. After four years of the foreign debt crisis, no growth, the renewed threat of hyperinflation, and the twin disasters of the Mexico City earthquakes and the oil price collapse, the storm clouds suddenly parted.

Mexico reached agreement with its creditors on a new growth-oriented financial package worth up to $14bn, enough to finance reduced inflation, slower peso depreciation and lower interest rates. Prices began to pick up in oil and in metals, favouring stock in Mexico's silver-mining companies.

The infrastructure for explosive market growth, moreover, already existed. Since Mexico's financial collapse in September 1982 - which brought with it the expropriation of the private banks, the forced conversion of $14bn in locally-held dollar accounts into devalued pesos, and capital flight that year alone of perhaps $12bn - the growth of the parallel and private, non-banks financial sector had been exponential.

The stock brokerage industry alone, which controlled 8 per cent of national savings in 1982, increased its share to about 33 per cent by mid-1987. In a bid to recover the private sector confidence lost by the nationalisation of the banks, the de la Madrid Government actively facilitated this growth.

In 1984, it returned to former bank share-owners holdings in 339 companies owned by the banks. These included the financial services companies (especially brokerage and insurance houses) which then became the core of a parallel finance system in competition with the State banks.

Then this year, the Government finally delivered on its pledge to privatise 34 per cent of equity in the banks. It pre-placed almost all the shares with bank employees and, more controversially, among clients selected in ways which in several cases evidenced political patronage.

By any yardstick the shares, known as CAPS, were underpriced. Stock in Banamex and Bancomer, the two leading banks which each control about a quarter of total bank assets, rose from issue on February 6 to the end of September by 3,170 per cent and 2,190 per cent respectively. The Comptroller-General's office announced an investigation at the end of April and subsequent CAP issues offered sharply lower discounts.

Up till the third quarter, the sharp revaluation of industrial shares seemed justified by first half corporate results, which showed a 456 per cent swing into profit against a 460 per cent rise in the index.

But the CAPS, included in an expanded index from July, became the single most important factor in inflating the boom into a dangerously speculative bubble. Though only a handful came onto the market until the post-October selling wave, this was sufficient to propel the index into the stratosphere. In the third quarter, shares in Banamex, Bancomer, and the third leading bank, Serfin, as well as in Operadora de Bolsa and Inverlat, the two leaders among brokerage houses which obviously benefitted disproportionately from the bubble, rose over 300 per cent.

Banamex suddenly acquired a market valuation of $3bn, on a par with Chase Manhattan, while Operadora de Bolsa was valued by the market at its height at $2.3bn, more than, say, Morgan Stanley.

The veritable explosion of this bubble has put at risk the consolidation and future development of a host of new features which had appeared in the market, including:

- *New investors*: the number of brokerage accounts rose from 100,000 in 1985 to 200,000 in 1986 and an estimated 400,000 by this August, many of them invested in:
- *Mutual funds*: 28 of them, which this year became the vehicle for the brokerages' expansion of market share and which provided the underpinning for, among other new instruments:
- *Venture capital funds* (first launched in May); new commodity backed paper like silver bonds, launched in September, and finally, for the first time since the 1979 boom-to-bust market cycle, new industrial issues.

The bolsa had been acquiring not only debts but personality. The only really new industrial group to emerge since 1982, for instance, was put together through acquisitions and on-sales made through the market by Carlos Slim, a businessman of Lebanese origin and the bolsa's leading corporate raider (who, like a weather vane, virtually withdrew from the market in July). In another example, Desc, the leading diversified industrial group, was able to restructure itself financially through new issues.

The most optimistic view is that the market will continue to develop but from a reduced base around its old core of investors. Price to net worth ratios, it is pointed out, which Mexican investors have paid more attention to than price/earnings multiples, still allow for some revaluation at an average of around 125 per cent, against the inflated year's high of 315 per cent, but an average this time last year of 65 per cent.

The bolsa has provided the year's biggest boom and biggest crash. Such are its animal spirits that it is already top candidate for the year's most vigorous rebound. It is, in a sense, fortunate for the promoters of Mexico's capital markets that these unenviable yo-yo like records have been set against a background of such market turmoil internationally that their significance seems diminished.

David Gardner

Oil remains of critical importance to the country's economy, reports **Richard Johns**

Spending on exploration suffers

FROM THE upper reaches of the *800 foot skyscraper headquarters* of Petroleos Mexicanos it is not possible on a badly polluted day in Mexico City to see lesser high rise buildings little more than a mile away.

The prominence of what is *reputed to be the tallest building* in the Americas south of the US border - however invidious it may seem to some of the nation's citizenry and the denizens of the insalubrious quarters to the north of the edifice - certainly reflects the economic importance of the state oil corporation founded after the 1938 nationalisation of the industry.

Since the collapse of oil prices and the devaluation of the peso there has been a healthy increase in non-oil exports and foreign exchange earnings. But the country's dependence on hydrocarbon resources and *Pemex's capacity to maximise the return from them remains of* critical importance to the economy.

In the five years up until the end of 1986 Pemex was responsible for economic activity generating *on average 4 per cent of* gross domestic product, 48.4 per cent of foreign exchange receipts on current account and 51.2 per cent of state revenue as well as more than 90 per cent of Mexico's energy supplies.

La Torre Pemex was planned and construction began in the expansive era of the late 1970s when Pemex established the image of being not only "a state within a state" but a corrupt and mismanaged one as well.

Gradually under the administration of President Miguel de la Madrid it has been made more accountable to the government. At the same time, its investment aspirations have been increasingly constrained by diminished *earnings from oil exports* and the way in which they have been milked by a revenue hungry state.

Mexico was badly hit in 1986 not least because it stuck to official prices after the Opec had *abandoned them for the market*-related Netback system, based on realised prices for products, less refining and transportation costs.

It suffered losses proportionately greater than almost any member of Opec with which it was and still is a policy to collaborate in global output restraint.

Combination of a 10 per cent volume *decline* and a drop of more than half in average earnings per barrel from $25.40 to $11.84 resulted in export revenues being slashed by 58 per cent from $14.6bn to $8.1bn.

A little belatedly, Pemex *adopted flexible pricing formulas* related to spot rates for rival crudes, with allowances for sulphur content and transportation costs, competing for the US, European and Japanese markets - respectively accounting for 50 per cent, 17 per cent and 14 per cent of total exports in 1986.

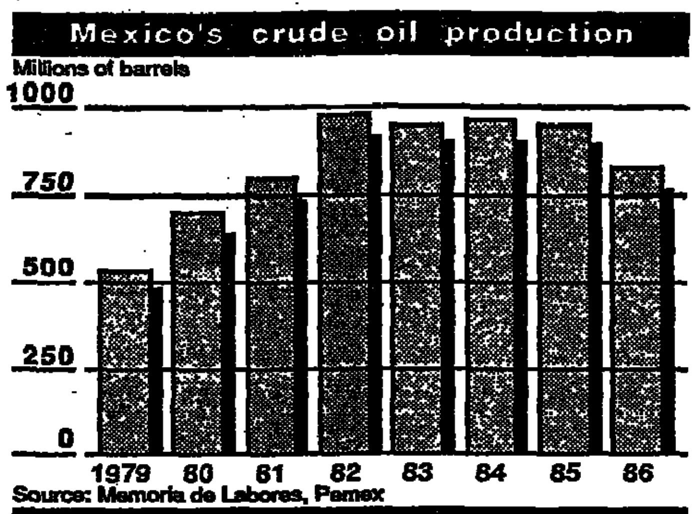
Shipments to the US have continued at 180,000 b/d. Talks currently taking place, meanwhile, could lead to higher liftings next year by the Japanese buying consortium which took just over 60,000 b/d in 1986.

Pemex must look with some envy at Petroleos de Venezuela *which has secured crude export* outlets for a large part of its output through refining joint ventures abroad. But in Spain, by far its largest European market with 71,000 b/d import in 1986, the second biggest *worldwide*, it *has a 34 per cent stake in* Petronor. And it is talking with Repsol about a possible 10 per cent holding in the new Spanish state oil company.

After last year's disappointing performance Pemex's oil exports *and foreign exchange receipts* in 1987 have far surpassed original budgetary assumptions which projected average exports of 1.33m b/d at $12 per barrel. With the original limit raised in mid *July to 1.6m b/d*, an annual rate *of 1.350m* is in prospect and up to mid-November the yield had $16.40 per barrel, according to a senior marketing official.

Given the pressure upon it to fill the Federal coffers, the question is whether sufficient finan*cial resources will be made avail*able to fund the exploration and development at the level required to sustain export targets and domestic consumption for the median term future without running them down too drasti*cally*.

Apart from the revenue imperatives of the state there are the competing demands for funds from the refining and petrochemical sectors as well as the cost of servicing the $15bn debt incurred in the days when the state used Pemex as an agent for borrowing because of its credit*worthiness in the market*.



Last year Pemex reported a total investment of M$953.3bn, the equivalent of $1.56bn at the average controlled exchange rate during 1986 compared with gross revenues of M$7,766 bn ($12.54bn). *According to recent* reports, however, the allocation approved for 1988 will be in the region of M$6,000bn which would indicate a substantial increase in real terms.

Official statistics for the end of *1986 showed a marginal decline* in proven reserves, down 1.2 per cent over the twelve months period, for the third consecutive year as new discoveries failed to compensate for oil and gas extracted and exploration drilling *declined as a result of the* financial squeeze.

Spending on development has *suffered, too. Not since 1983 has* a new oilfield started production. And neglect of secondary recovery may have reduced capacity. Pemex officials are reluctant to say what the optimum is (taking into account maintenance of res*ervoir pressures) but many* observers believe it is below the level of about 3m b/d achieved in the 1982-85 period.

The total in 1986 including oil destined for the home market was 2.83m b/d. Oil reserves *including condensate were put at* 5.7bn barrels at end 1986, placing Mexico in fifth place, roughly equivalent to Venezuela, after Saudi Arabia, Kuwait, the Soviet Union and, in all probability, Iraq. Pemex calculated gas *reserves at 75 trillion cubic feet*, the equivalent of about 15bn barrels. But 22 per cent of the oil condensate and 25 per cent of gas reserves were reckoned to be in the Chinotepec fields where the small and tight structures are not feasible for commercial exploitation at current prices.

Pemex officials admit that exploration has been hard hit by budgetary constraints. By the end of 1987 only 41 explorations and 118 development wells will have been *drilled*, they *say*. These figures compare with 68 and 178 in 1986 when discoveries, despite a 40 per cent success ratio claimed, amounted *to* only about half of volumes actually extracted.

The average depth of exploration wells, meanwhile, has now reached over 5,000 metres compared with only 4,500 metres in 1986 and 4,000 metres in 1985.

There have been good discoveries like the cluster of oilfields found offshore about 90km north-east of Baha del Carmen in the Gulf of Mexico in the 1983-6 period. Two other deposits found *this autumn, Luna just onshore* and Yum just offshore, have exercised much interest.

Pemex is satisfied that it has established considerable potential for gas in the north-east. for quick results, however, priority *has been given to the prolific* Campeche Bay which is reckoned to contain about 47 per cent of Mexico's total hydro carbon resources, and a swathe of seabed stretching to the Tabasco coast.

The company is very optimistic about *gas prospects* in the north-east of the country where development of the Reynosa Profunda field near the Texan border could add nearly 300,000 cubic feet per day to overall output, which last year ran at *3,431.1m cubic feet p/d of which* only a minimal amount was flared.

No one doubts that there are many undiscovered commercial structures of oil and gas. As it is, oil reserves would be enough to last for 54 years at the 1986 *rate* of extraction and those in gas for 60. Pemex would like to spend something like $10bn over the next five years on exploration but will have to make do with very much less, not least because the government which approves its budget wants to press ahead with other urgent projects.

One of the most important is the expansion of refining capacity. Last year Pemex's nine plants ran at about 90 per cent of their installed capacity on nearly 1.35m b/d. Net exports of refined products (Mexico still has to import lube oils) are running at 40,000 to 50,000 b/d less than half the rate recorded in the 1984-86 period.

Policy is to restrain domestic consumption to make more oil available for export. The aim is to save 200,000 b/d and reduce the dependency on heavy fuel oil for electricity generation from 62 per cent to 59 per cent by the end of 1988.

Nevertheless, domestic consumption is expected to increase next year as a result of economic growth and delays in completion of generating plant using other fuels.

Amongst them is the controversial Laguna Verde nuclear power plant. The first 650MW phase is expected now to start commercial operation by the middle of next summer with the second coming on stream about two years later, according to a *senior official at the Ministry of* Energy.

Coal fired capacity should be doubled with the completion of a second 1,200MW plant in 1990 while a further expansion of hydro electric power which currently *produces 30 per cent of* electricity requirements, is under way.

Similarly, the objective is to reduce the volume of gas output burned for generating power. Last year, electricity produced *by gas, mainly for Mexico City* and its environs, accounted for 33 per cent of a reduced flow.

Preserving gas for export, which ceased with the suspension in 1984 of sales to the US because of a price dispute is not the reason for conserving.

Rather it is now valued primarily as feedstock for the fast expanding petrochemical industry and fertiliser production on the one hand and fuel for industries requiring it, in particular the gas reduction steel plant at Lazaro Cardenas. It is priced, in calorific terms, at about half the rate for fuel oil but is still well below US rates, at about the equivalent of $1.50 per thousand cubic feet.

As it is the balance between *supply and demand in oil* products that is becoming uncomfortably tight, largely as a result of the increased usage of heavy fuel oil from 243,000 b/d in 1980 to 356,000 b/d in 1986.

The expansion of the 165,000 b/d Salina Cruz facility with an additional 150,000 of capacity together with the installation of a catalytic cracker is scheduled for completion in 1989. The second stage of the refinery at Tula on the Gulf Coast which will more than double present capacity of 155,000 b/d should come on stream in 1990.

Pemex boasts a high level of upgraded refining capacity. Last year heavy fuel accounted for only 29 per cent of product in line with the policy of converting into light products as big a proportion as possible of the country's heavy Maya crude (23 degrees API gravity) which constitutes about 60 per cent of total oil output for conversion thereby maximising availability of light Isthmus crude (33-34 degrees API gravity) for export.

Pemex is planning to start the construction in 1989 of a 300,000 b/d "grass roots" refinery as the first of a new generation of ultra modern, largely exported oriented refineries. *The site has yet* to be decided but will almost certainly be on the Pacific coast.

Finance for the expansion of the Salina Cruz refinery is being provided from the $1bn credit extended by Japan's Export-Import Bank. As part of the Pacific Petroleum Project, the loan is also funding the construction of a second pipeline to transport crude across the Isthmus of Tehuantepec and the carving out of the salt domes near Coatzaco which is also on the Gulf coast to give an oil storage capacity of 12m barrels, about double Pemex's present very limited capacity of about 6m barrels.

Petrochemicals consumed nearly a quarter of Pemex's budget in 1987. Mexico has one of the biggest petrochemical industries in the world - about the 12th largest in the world, according to Pemex officials. Production is expected to rise to 17m tons in 1987 when the sub-sector could account for as much as 2.5 per cent of GDP in itself.

The immediate objective is self sufficiency in all products. In the long term it has ambitions to be a substantial exporter.

Until October of last year the right to produce 72 somewhat arbitrarily defined basic petro chemicals was reserved to Pemex. The number was then cut by half. The private sector, often in partnership with foreign companies which are allowed up to 40 per cent share in joint ventures producing secondary petrochemicals has shown great dynamism not the least in its search for market opportunities abroad. It seems that Pemex's petrochemicals division may receive nearly 30 per cent of collective budget next year.

Mining

Silver does good service

HEAPS of old tailings and the dark *portals of abandoned mine*-shafts dot the arid uplands of the northwestern state of Zacatecas, one of the oldest and most intensely worked mining districts in the Americas.

The boom times ended in Zaca*tecas a century ago, and the local* economy was devastated further by the 1910-20 Revolution. But it is still the biggest silver-producing state in a country that has long been the world's leading silver supplier. It is the heartland *of the gambusino, the poor local* prospector who ekes out a living from low-grade mining and remains Mexico's best information source on untapped deposits.

The industry's legacy is every*where: the capital city's main* tourist attraction, tellingly, is a restored mining tunnel that counts among its subterranean *appointments* the State's fanciest discotheque.

Mining production

	1982	1983	1984	1985	1986*
Precious metals	Kgs	Kgs	Kgs	Kgs	Kgs
Gold	6,104	6,930	6,998	7,524	7,804
	tons	tons	tons	tons	tons
Silver	1,550	1,911	1,987	2,153	2,308
Industrial non ferrous Metals	000 tons	000 tons	000 tons	000 tons	000 tons
Lead	146	167	183	207	183
Copper	239	206	189	168	175
Zinc	232	257	290	275	271
Siderurgical metals and minerals					
Coke	2,796	2,812	2,721	2,725	2,594
Iron	5,382	5,306	5,489	5,161	4,903
Manganese	183	133	181	151	170
Non-metallic minerals					
Sulphur	1,815	1,602	1,820	2,020	2,050
Fluor Spar	631	557	627	697	737
Baryta	324	357	426	468	312

* Preliminary

SOURCE: Secretaria de Programación y Presupuesto.

"Our fathers were miners and *our great-grandfathers were min*ers," said Francisco Gutierrez, a leader of a state-wide small miners' association. "We all have dirt under *our fingernails," he said*, referring to the owners of the group's more than 200 member companies.

Locally controlled firms with usually fewer than 50 employees, these small companies employ some 6,000 full-time workers - the bulk of the State's mining jobs. But in terms of production, their total output is far outpaced by one of the most technologically advanced silver mines anywhere: Real de Angeles, an *open-pit operation that is the lar*gest of its kind in the world, accounting for more than 10 per cent of Mexico's 1987 production of some 75m troy ounces.

Dredging through the core of a colonial-era mine network that was exhausted *by* traditional deep tunneling generations ago, Real de Angeles - a $500 million joint Canadian-Mexican venture that entered *full* production just three years ago - is seen as a symbol of Mexico's continuing investment in silver mining.

Silver is far from Mexico's only mining product: it is first among world producers of fluorspar and sodium phosphate, second *in* graphite and antimony, and fourth in arsenic, mercury, molybedenum, sulphur, and zinc. Mexico is also emerging as a substantial gold source, with new discoveries outpacing mine development.

But silver has historically been by far the most profitable min*ing product in Mexico*, with its earnings making feasible many mining operations that also produce large volumes of lead, zinc, copper, and other products. Silver, in value, now accounts for a quarter of Mexico's entire mining output and *half* its mining exports, which are expected to reach US$1bn this year.

In 1986 Mexico produced 74m troy ounces of the refined metal, more than 17 per cent of total world production. Its main rivals in the industry are Peru, which produced 59m *ounces*; the Soviet *Union*, with 51m; and Canada, with 47m ounces.

Projections published last month by The Silver Institute, a Washington-based industry association, expected Mexico to retain its position as the number one silver producer at least through 1990, despite expected production jumps in Peru, the US and elsewhere.

When the Hunt brothers drove up silver prices in 1979 and 1980 Mexico benefited little. The bulk *of the Mexican silver sold for* these record prices had already left the country. For the industry here, the main impact of the sudden price climb was a diminishing in world silver demand as industrial consumers invested in *recycling technology and sought* substitutes for the precious metal.

As silver prices began plummeting back to earth in 1981 this technological conversion still kept demand depressed. Since then, however, the market has recovered, and Mexican companies are again expanding their production and refining facili*ties, industry experts report*.

"There has been a strong recovery in world silver demand for the past three years," said Hector Calva Ruiz, the President of Mexico's mining industry chamber. The heaviest new demand *has* come from industrial photography, X-ray machines, and, increasingly, the production *of jewelry*, flatware, and commemorative coins, he said.

Still, the industry would undoubtedly have expanded much faster had not the subsequent slump in world silver prices coincided with the debt crisis, which dried up fresh credit sources both domestically *and internationally*.

Since the mid-1982 onset of Mexico's financial troubles, silver prices have hovered around $7 per ounce - half the level averaged during the five years before the crisis. But silver mining companies are now among the most *successful* of Mexico's private enterprises, increasing production and employment and weathering the country's recent stock market crash.

The "key to this *success*," Mr Calva said, has been the drastic downward march of the Mexican peso. When the peso dropped anew on November 18, mining company stocks the same day jumped 50 per cent on the stock exchange.

"Despite the drop in world prices, the devaluation of the peso has allowed the mining industry to survive," said Mr. Calva, who is also the Chief Executive Officer of Industrial Minera Mexico, a diversified private mining company that is among Mexico's leading silver producers. "Like all export industries, the mining industry benefits from a less expensive peso. Labour costs drop, and dollar earnings give us the capital needed to expand. We couldn't function with an overvalued peso."

Over the past year, private Mexican companies have proceeded with new investment projects in silver and gold mining and refining, copper and lead processing, and sulfuric acid production. Though less than the $500m *annual investment* averaged by the industry during the 1978-81 oil boom period, this still represents a substantial expansion in hard times for a traditional industry. This continued progress is held up by some Mexican analysts as a response to critics of the country's foreign investment laws.

Mexico's 1961 Mining Law, which set a precedent for later rules governing foreign investment in *other* industries, required the mostly American-owned companies in the field to "Mexicanize" - gradually to convert all *mining enterprises* into companies with majority local equity control.

Mining deposits are by constitutional definition and by Spanish colonial tradition the exclusive property of the State. The foreign companies were working government concessions, there*fore; the 1961 law did not* require expropriation, and was enforced with little protest.

Now, 26 years later, the industry is fully under the control of Mexican private capital, with state investment banks and foreign private companies represented as minority equity partners in many companies. Private mining companies like Industrial Minera Mexico, Minera Autlan, Bolano, Frisco, and San Luis are now among the most powerful and dynamic firms in the country.

Leading the pack is Met-Mex Penoles, which, as the world's biggest private silver refiner and exporter, has become a major force in international metals.

Some analysts have suggested that opening up mining again to wholly foreign-owned enterprises would help Mexico by increasing the pool of risk capital dedicated to new exploration and the development of entire new mining zones in the south.

Local industry leaders dispute the argument. Before the Mining Law, they note, the industry had been stagnant. Mining exports since 1961 have increased fivefold, to $977m last year, while direct industry *employment* has more than tripled to 227,000 jobs, they note. Foreign firms cannot seek equity control but are still welcomed as minority partners, they point out.

In any event, few observers expect the law to be changed. "The rules of the game are quite clear," Mr Calva said. "Not only *do I not expect to see* them altered, I see no reason at all why they ought to be."

William Orme

Profitable manufacturing for US-based companies

In-bond industry grows

THE *MAQUILADORA*, the in-bond industry, is the only sector of Mexico's economy to have experienced a significant expansion since the onset of the recession in 1982, since when there has been no net increase in employment.

Indeed, and ironically, its growth has more than doubled since then, precisely because the decline of the peso reduced the labour costs, and thereby increased the incentives, for companies with plants to manufacture, assemble, or process components and raw materials brought into Mexico in-bond from the US and which return there transformed duty-free.

In 1986, when the number of such plants increased by 25 per cent to nearly 990 - a figure which has now risen to more than 1,075 - the industry became the country's second-biggest earner of foreign exchange with gross receipts of $1.4bn as added value increased by 30 per cent. This year they are expected to bring in at least $1.6bn.

Maquilas - nearly 98 per cent of them are owned by US-based companies - now provide employment for about 300,000 Mexicans, about 80 per cent of them female though the proportion of men is increasing.

The turnover of labour is relatively high though. Ms Grizel Diaz, who runs the commercial affairs of SAFT, a French-owned company producing rechargeable batteries, is not alone in having a loss of about 10 per cent of workers annually, with most of them leaving early in the year after the Christmas bonus has been paid.

This is a cause for puzzlement since basic hourly earnings at about $1 compare with a national minimum of $3 a day - and rates 10 times higher across the border. In practice, various benefits raise average wages by 80-100 per cent.

Maquila labour, even if it is a bargain for US-based companies, is still the most expensive in Mexico, points out Mr Diego Ubire who runs an office furniture manufacturing plant for Anderson Desk, a Californian company.

Mr Enrique Esparza, co-owner of Assemble in Mexico Inc, calculates that, on average, when all overheads including freight are taken into account, labour accounts for about 30 per cent of the costs of a maquila operation.

He is in a good position to know because his company is a "shelter" operation, providing for a flat rate fee all infrastructure, personnel, trucking, insurance, customs and other requirements of an investor, not least in dealings with the government.

Among his 36 clients are Philips, two Japanese companies, and a Korean one. Honeywell was another until it decided that it could cope on its own.

A maquila is certainly not in itself a licence to increase profits, though Mr Esparza is anticipating gross revenues this year of $20m, up 70 per cent on the 1986 level.

Competition for labour is tending to drive up rates, in particular for the more skilled grades and especially around Tijuana, Tecate and Mexicali in Baja California - the fast-expanding zones among the 15 assigned for in-bond manufacture.

Ciudad Juarez, opposite El Paso, Texas, is still the biggest, and the one most favoured by the growing Japanese presence, because of its proximity to San Diego and the Pacific Coast.

Given the demand for labour and the rate of turnover, Ms Diaz wonders why the flow of illegal immigrants to the US - to an uncertain and often miserable existence - continues so intensively.

The in-bond, cross-border industry was established in 1965 to provide alternative work for Mexicans when it became illegal for them to do *bracero*, seasonal farm work in the US.

While the American labour unions and their lobbyists on Capitol Hill have become increasingly restive about job losses - a controversial and very debatable issue - the benefits to US business, especially the electronics and motor industries, are fully manifested by the use made of maquilas by such giants as General Motors, General Electric, Chrysler, Ford, Rockwell, Westinghouse, McDonnell Douglas, and Union Carbide.

West European representation is almost entirely through US subsidiaries with a number of maquilas acquired as a result of take-overs of American companies. That accounts for Saft's presence and also a single maquila indirectly controlled by GEC of the UK.

One of the earliest major US corporations to avail itself of cheap Mexican labour was the Zenith Electronics. Faced with competition from Japan and other Far East suppliers, the US manufacturer of television sets looked as if it could be driven out of business.

It established its first maquila at Matamoros in 1971, employing 300 workers at the outset. Now it has about 25,000 workers in all, having spread its operations to Chihuahua (television cable and computer products), Reynosa (TV sets and components), and Agua Prieta (TV set rebuilding).

Zenith is cited by supporters of Mexico's in-bond operations as a prime example of how the maquiladora system has saved American jobs in the face of foreign competion. The supporters of it include the cities adjacent to the main centres like San Diego and El Paso with its close links with Juarez.

Earlier this year Grupo Bermudez, a promotor of maquilas in the Juarez area, produced figures indicating that 89,600 workers there supported no fewer than 258,970 jobs in the US in 49 states.

Mr Dan Pegg, President of the San Diego Economic Development Corporation which is one of the most vigorous champions of them, says that not less than 25 per cent of the earnings of the *Mexican in-bond workers*, in effect a minimum of $350m in 1986, is spent by them in the US itself.

Despite stringent immigration controls they are given plastic passes allowing restricted visits. This year the advocates of the system established the Border Trade Alliance to press the case in the face of growing opposition from the AFL-CIO labour federation prompted by the surge of activity by companies from the Far East and the use by them of components from their home countries.

Textiles are excluded from the the maquilas under Mexico's investment law because they are subject to a bilateral fibre agreement.

Japanese involvement is not a recent development. Sanyo's operation outside Tijuana making small refrigerators, electric fans and rechargeable batteries, dates back eight years - and is now rapidly expanding with the construction of a $40m plant to make TVs which will raise employment from 100 to 300 next year.

In the last two or three years, however, other big players have emerged on the scene as well as their less well-known suppliers. South Korean concerns such as Samsung, Gold Star and Daewoo have joined them while "others are aggressively seeking out opportunities," according to Mr Pegg.

The economics of maquilas are such, it seems, that low labour costs make them profitable even if components are imported from Japan and do not enjoy US tariff exemptions. Most brazenly, Matsushita's products marketed under the Panasonic and Quasar brand names have an American content of only 20 per cent.

Mr Pegg says that the BTA, which represents the maquilas, has been "very active" in meeting Congressional objections stirred up by the unions. The existence of such maquilas complicates the association's task.

And while wounded and sensitive pride has traditionally inhibited Mexican interests from lobbying, the task of the association is not helped by the reluctance of the big guns of US industry to put their head above the parapet for fear of provoking retaliatory fire from organised labour.

They tend to be sensitive about their maquila involvement and none more so than General Motors. It already has 23 in-bond plants, including 15 making electrical harnesses; all of them are registered under different names in what can only be regarded as a *semi-clandestine operation*. The company is believed to have plans for 50 such units in operation by 1990. "What's good for Mexico also happens to be good for GM," says a veteran maquila observer.

Ford has been more subtle: its facility at Hermosilla is not a maquila but its output of cars for the market is based largely on Japanese components and for those made in Mexico it enjoys tariff exemptions. When Ford's other domestically-oriented plant went on strike this year their American "brothers" in the auto workers union gave them not entirely disinterested moral and *perhaps financial support*.

So far, trade legislation being drafted in the US Congress does not contain anything detrimental to maquila industry. The belief in San Diego and Juarez is that whatever law does emerge will not harm it.

As yet, only a handful of Mexican-owned maquilas have sprung up. It is a matter of debate as to what the spin-off will be for the country's long-term industrialisation, but *Ms Diaz is among those who* believe they could be considerable in terms of technical training.

Where skills do not exist, local vocational schools are changing the curriculum to provide them, she points out.

Government officials stress that the state's objective is not the "maqiladorisation" of Mexico but an increased domestic content of its output to 25 per cent and the growth of the indigenous *industrial sector generally*.

Richard Johns

Mexicans' basic diet of maize and sorghum is still dependent on imports or rural subsistence

Agriculture

Concentration of energies

IN HIS campaign speeches, Mr *Carlos Salinas de Gortari*, the PRI presidential candidate, attaches a high priority to agriculture.

In the past, similar promises have been made, only to prove little more than lip-service to Mexican history - the 1910 Revolution began on the land and had as one of its rallying cries: "Land and Liberty."

Governments have seemed more interested in ensuring the tranquility of the peasants than *boosting agricultural production* - its share of GDP has been halved to 9 per cent in the past 25 years.

However, Mr Salinas knows the countryside, having not only written his doctoral thesis on the subject (entitled Production and Political Participation in the Countryside), but having spent time on field studies. He promises to be the first President since Cardenas in the 1930s with such direct knowledge of agriculture - *and it was during the Cardenas era* that the bulk of effective land distribution occured.

The de la Madrid administration can take credit for having removed some of the political rhetoric from agriculture, but the sharp recession has forced it to concentrate its energies on the consumption side, rather than production, through a National Food Programme (Pronal).

This has led to some improvements in distribution since 1983 *when 10 per cent of grains*, 30 per cent of fruits and vegetables and 50 per cent of fish was being lost through inefficiencies in the system.

It has also allowed the private sector to take over some of the functions of Conasupo, the state commodity import and distribution agency. Just as important, a determined effort has been made to reduce the level of subsidies.

Over the past three years, the amount paid out by Conasupo in *subsidies has been slashed by* almost 60 per cent. The cuts in subsidies have even been extended to the very heart of the Mexican diet, the tortilla.

At the same time, the need to diversify export earnings away from oil has encouraged a reassessment of Mexico's agricultural potential. However, the de la Madrid administration seems to have been torn between the desire to encourage greater self-sufficiency and the possibilities of exploiting Mexico's comparative advantage in the production and export of labour intensive fruits and vegetables, tropical products, cut flowers and selected processed foods.

Agricultural exports are currently running at $2bn a year. Agricultural experts believe it unlikely that Mexico can both expand exports and increase the level of domestic self-sufficiency, and they argue that a clear policy decision should be taken in this respect.

However, this is easier said than done. Limited rises in production, coupled with a fast growing population and higher living standards, have eroded Mexico's self-sufficiency in food.

Furthermore, Mexico is not self-sufficient in key basic items such as corn, sorghum, and oilseeds (especially soya). On current estimates, Mexico could be importing 4m tons a year of corn, against the present 2.5m;3m tons of sorghum against the present 1.5m; and a possible doubling of existing $500m annual purchases of oilseeds.

Nor can self-sufficiency always be assured in dry edible beans, because harvests are variable. The latter, along with corn, are the foundation of the Mexican diet.

Corn provides 25 per cent of the average calories and 20 per cent of proteins, although in rural areas the figures rise to as high as 70 per cent. As incomes have fallen since the debt crisis, the consumption of corn has gone up while meat has gone down.

Agricultural imports are currently running at just under $1.5bn a year, which is not a huge amount given Mexico's resources. But no government wishes to depend too heavily on importing items so basic to the national diet.

Main agricultural products

(Thousands)

	1982 Hectares	1982 Tons	1983 Hectares	1983 Tons	1984 Hectares	1984 Tons	1985 Hectares	1985 Tons	1986* Hectares	1986* Tons
Corn	8,377	10,129	8,638	13,061	7,978	12,932	8,278	13,869	8,152	11,316
Beans	2,448	943	2,262	1,282	2,039	974	2,065	912	2,322	986
Rice	207	511	165	416	153	484	281	804	194	539
Wheat	1,011	4,036	907	3,460	1,079	4,505	2,281	5,207	1,284	4,769
Sorghum	1,678	4,717	1,977	4,846	1,885	4,974	2,045	6,564	1,920	4,802
Barley	311	396	327	557	311	619	299	541	315	513
Soybeans	412	648	416	686	426	685	500	940	405	706
Sesame	133	32	183	87	157	61	160	71	124	51
Carthamus	228	221	458	227	256	209	298	150	258	161

*Preliminary

Source: Secretaria de Agricultura y Recursos Hidraulicos and Banco de Mexico.

In Mexico's case 90 per cent of imports come from the US with some grains coming from Argentina.

But serious constraints stand in the way of increasing the level of self-sufficiency in food. Only 15 per cent of Mexico's land area is potentially arable. *The soil is generally poor with* only 40 per cent arable land possessing reasonable production potential. Even the best soil, in the north, has saline problems due to irrigation.

Lack of water is a major constraint and liable to become an increasing handicap since industrialisation and urban migration will create greater competition with agriculture for scarce supplies.

Mexico's rivers have little volume; average rainfall is low and *unevenly distributed. Only a 25* per cent of arable land normally receives sufficient rain for spring/summer cropping and less than 5 per cent for winter cropping. It is reckoned that *drought occurs in four out of* every 10 years.

The most rainfall is in the tropical, least developed south. In contrast, *only 15 per cent of* the country's water supply is in the interior highlands where 70 per cent of the population lives.

Under these conditions it is hard to obtain consistent yields. For instance this year, thanks to good rain, there will be no need to import dry edible beans.

The area harvested oscillates between 15m and 20m hectares. At present, some 11m hectares are planted in rain-fed areas and 5.5m hectares are covered by irrigation.

Traditionally, production increases have been sought *through* expanding the area under irrigation. But recently attention has switched to the much neglected rain-fed areas.

Although responsible for only half the value of agricultural output, rain-fed areas accommodate over 85 per cent of all farmers, and the authorities have realised *more can be achieved* at lower cost through improved technology and better drainage.

The Government recognises there is considerable scope to raise the level of technical education here and to make better use of rural credit.

One of the biggest criticisms levelled against successive governments has been the way rural credit has been used as a tool to obtain political obedience rather than promote production. Concentrating on farmers in the rain-fed areas also helps to stem the rural exodus.

Perhaps the biggest constraint on the whole sector's growth, *however*, is the politically sensitive topic of agrarian reform. Mexican agrarian reform has been praised as the most progressive and successful in Latin America: peasants have acquired land either individually or communally (land acquired like this is called the *ejido*) and there has been stability in the countryside.

However, the high rural birth rate has meant that there are now some 4.5m landless peasants, against the 3.5m at the time of the Revolution. Yet little worthwhile land is available for further distribution and the best land still remains in private hands where production is more dynamic and efficient.

The private sector has been primarily responsible for diversifying away from the traditional crops of coffee, sugar and cotton to winter vegetables and fruits for the US market.

Precisely because of the dynamism of the private sector, its ownership of the best land, and the existence of large numbers of landless peasants, agrarian reform remains a politically sensitive slogan. This in turn creates considerable uncertainty among potential investors, who fear a government might turn the land into a populist issue.

Dr Edmundo Flores, a leading agricultural expert, who also taught Mr Salinas at Mexico City state university, argues that when the Ministry of Agrarian Reform was damaged in the 1985 earthquake it should have been demolished, clearly demonstrating that the nation's priorities had moved beyond the question of land ownership.

Robert Graham

Main Agricultural Exports

(Millions of dollars)

	1982	1983	1984	1985	1986*
Cotton	183.8	115.7	208.2	90.2	74.1
Coffee	345.1	385.7	424.4	491.6	824.5
Fresh Fruits	72.1	47.6	81.6	89.6	116.0
Vegetables	178.4	149.5	179.3	161.6	197.9
Tobacco	46.8	20.5	27.2	25.8	28.4
Tomatoes	153.9	112.3	220.7	214.1	407.7

*Preliminary
SOURCE: Banco de México

Digging an irrigation ditch. Lack of water is a major constraint

Robert Graham on Mexico's foreign policy

Between two worlds

MEXICO'S geography and Spanish colonial past create an almost inevitable schizophrenia in foreign policy.

To the north it shares a vast border with the US, the most powerful industrial nation, while in the south Mexico rubs shoulders with impoverished Central America. Mexico thus finds itself caught between the first world and the fourth.

Yet while Mexico forms part of the developed world of North America especially through trade, tourism and immigration, the country's historical and cultural ties make it identify with Latin America.

Mexico, therefore, frequently has its head pointed towards Latin America and its body towards the US. The body, so to speak, is locked into the US in a myriad of complex ways - and ever more so. Mexico is the fourth biggest trade partner of the US after Canada, Japan and West Germany. This $30bn two-way trade, now centred on the mutual strategic interest of selling and buying crude oil, is the bed-rock of the relationship. Put another way, Mexico does 16 times more trade with the US than the whole of Central and Latin America.

The interlocking process with the US has a dynamic of its own and often contradicts the far more visible side of Mexican foreign policy. The visible policy is built round a firm defence of national sovereignty and upholding the principles of non-intervention, self-determination and the pacific solution of conflicts.

In this context, Mexico is a prominent member of the Delhi Group of Six promoting nuclear disarmament. It is frequently at odds with the US over the latter's foreign policy, especially in UN votes (on the Middle East and Southern Africa) and over the whole question of Central America. Mexico has been a prime mover behind the Contadora initiative for peace in Central America begun in 1983 in conjunction with Colombia, Panama and Venezuela.

This initiative provided the seeds for the current peace plan of President Oscar Arias of Costa Rica and was the first time in Latin American history that nations of the region grouped together to try and solve a conflict independent of - and in contradiction of - US policy. The existence of the Contadora Group also spawned a Latin American support group (Argentina, Brazil, Peru and Uruguay).

Together, these groups have begun to operate as a forum for views and co-operation outside the traditional forum of the Organisation of American States (OAS) in which the US is seen to play far too dominant a role.

The summit of the eight leaders of Contadora and the support group in Acapulco at the end of last month was in good measure due to Mexican diplomacy. At one level the summit was the most serious effort so far to co-ordinate Latin American views on issues of mutual concern - debt, trade protectionism, regional security and the conflict in Central America. But at another level it was an attempt to convince the US of the need for a more equal relationship. Latin American nations no longer wish to see Washington treat the region as its backyard - and Mexico is in the forefront of those seeking these changes.

Mexican diplomats express frustration that the US fails to understand the motives for its foreign policy. For instance, Mexico has maintained good relations with the Soviet Union for at least two decades, and at the same time has been careful to cultivate a dialogue with Fidel Castro's Cuba. In part, this has been a deliberate move to appease the Mexican Left, making up for their exclusion from domestic politics. But it also represents a measure of insurance against Cuban and Soviet interference in Mexico.

For the same reason, the Mexicans chose to back the Sandinista Revolution in Nicaragua in 1979. The Lopez Portillo Administration fully supported the Marxist-orientated Sandinistas also as a means of demonstrating independence from Washington. Such greater independence in foreign policy seemed possible thanks to the vast new revenue Mexico was receiving from oil.

However, the onset of the debt crisis in 1983, and then the collapse of oil prices two years later, once again limited Mexican ambitions. This has been evident in the de la Madrid administration's much more low key support for the Sandinistas.

Almost two years ago Mexico stopped supplying vital oil to Nicaragua after the latter had accumulated debts of over $650m. In private, the administration has urged Nicaragua to liberalise and has tried on several occasions to promote direct talks between Washington and Managua, having been the host in 1984 for such contacts at Manzanillo.

Mexico has also offered its discreet good offices to help bring about a dialogue between the government in El Salvador and the Left-wing guerilla umbrella organisation, the FDR/FMLN.

Weakened by the debt crisis and oil price collapse, Mexico has to measure carefully the cost of crossing paths with US interests. Nor can Mexico ignore the advantages of being on good terms with Washington. The deal agreed recently with the international banks rescheduling Mexican debt and obtaining fresh funds was made much easier because of the special relationship with the US. The special relationship is symbolised by the annual summit between the two countries' presidents.

US support was shown earlier in the debt crisis when Washington agreed to purchase extra Mexican oil for its strategic reserve. Thus, even if the two countries do not always see eye to eye, the Mexicans believe that the US has a strategic interest in helping them, and the fact that such help is forthcoming gives Washington significant leverage.

The US also implicitly helps to guarantee some of Mexico's security interests. Mexico long ago wisely realised it could not compete militarily with its powerful northern neighbour. It has also resisted, to its credit, the temptation to upgrade its armed forces during the past five years, when Central American armies have tripled in size and in the amount of material they possess. Mexico is unique for a country of its size in seeking to project foreign policy without any pretence of military power.

The one departure foreseen if Mr Carlos Salinas de Gortari, the PRI candidate, is elected, concerns the Pacific Rim. Mr Salinas is fascinated by Japan and is determined that Mexico should assert much more its Pacific identity. In the past, token statements have been made about this, but Mr Salinas gives every indication that he intends to take practical steps to link Mexico closer to the Pacific Rim.

Trade

Liberalisation starts to show results

THE RADICAL change in the nature of trade has been one of the most remarkable features of the Mexican economy since the onset of the debt crisis five years ago.

The emphasis on import substitution, prevalent since the 1940s, has been replaced by a liberalisation of trade policy. Over the past three years, the de la Madrid administration has begun a gradual unravelling of the protectionist apparatus which has shielded (but helped develop) Mexican industry.

At the same time, the economy has become more export orientated, diversifying away from heavy dependence upon oil earnings.

These changes have occured in the context of Mexico's membership of the GATT in July 1986. Complimentary to the GATT membership, Mexico last month signed a framework agreement with the US, designed to encourage bi-lateral trade and establish mechanisms for solving disputes.

Since 60 per cent of Mexico's total trade is with the US, this is a major step forward towards a less confrontational approach to trade. It also should ensure that Mexico is not excluded from the Canadian-US market should the latter turn more protectionist.

Mexico is the US' fourth biggest trade partner and if cross-border transactions plus in-bond *maquiladora* earnings are included, then this bi-lateral trade relationship is worth over $30bn annually.

The agreement is formally called an "understanding" and is designed to pave the way for an eventual more open relationship. The Mexicans would like to be able to use the understanding to obtain greater access to the US market for steel products, obtain more advantageous quotas for textiles, and greater Mexican ownership of the maquiladoras.

The US, for its part, would like to see greater protection of intellectual property such as computer software and technological processes, and opening up of the Mexican telecommunications and transportation market.

Even at a conceptual level, the Government has encountered resistance to its liberalisation policy. But practical results are beginning to strengthen the Government's hand, and also encourage it to sustain the pace against considerable opposition from the more traditional sectors of the business community.

The most spectacular results have been in the extent to which the pattern of exports has changed. In 1982, when the debt crisis hit Mexico, oil accounted for 79 per cent of export earnings. This year, oil sales should be no more than 40 per cent of total export earnings. The first nine months' trade figures show non-oil exports have reached $8.7bn, up 26 per cent on the same period last year, while oil and oil product sales totalled $6.5bn, up 45 per cent.

The drop in the importance of oil earnings in part reflects the fall in crude prices since 1982. However, the trend in non-oil exports is clear. Since the export stimulus began in 1985, non-oil exports have nearly doubled.

The main thrust has come from manufactured goods: their share of total exports has jumped from 16 per cent to over 45 per cent in five years. Most significant here has been the increase in sales of the Mexican motor industry - both components and cars. Sales from the US motor companies' Mexican operations to parent companies across the border now account for close on 50 per cent of manufactured goods exported.

To this must be added the rapid expansion of the in-bond maquiladora industries along the border with the US. Mexican statistics account separately for foreign exchange earnings from this sector, while the US trade figures include the maquiladoras. This year maquiladora earnings are expected to be $1.7bn, double that of five years ago.

However, sales of melons, tomatoes, frozen shrimp, and vegetables, as well as processed goods, have done well. Since 1982 their share of export earnings has risen from 6 per cent to 13 per cent. Furthermore, volume has continued to rise even though prices fell 27 per cent this year. Also dependence upon traditional commodities like coffee has been lessened so that fluctuations in international prices can be absorbed more easily. Coffee accounts for just under half of all agricultural exports.

Officials at the Bank of Mexico anticipated even before the recent turmoil in the international stock markets that the increase in non-oil exports would slow down next year. Now the projection for 1988 is an 8 per cent increase from $12bn to $13bn.

Much depends on the performance of the US economy since it absorbs 66 per cent of Mexican exports and provides 65 per cent of imports. The other biggest single trading partner is Japan, absorbing 6.6 per cent of exports and providing 6 per cent of imports. The EC, for its part, accounts for 14 per cent of exports and 15 per cent imports.

The direction of Mexican trade has remained relatively unchanged since the debt crisis, but there has been a tendency to deal more with OECD countries at the expense of Latin America and the Socialist Bloc. With the need to earn hard currency this trend seems likely to continue.

The positive trend in exports has been matched by a contention of imports. Imports are still $3bn below the 1982 level of $14.4bn. The principal import demand has come from the private sector, orders from which have nearly doubled from a low of $4.2bn in 1983.

If the Mexican economy sustains the recovery which began this year, industry is likely to devote more attention to the domestic market. However, the Government - and the presumed successor PRI administration - will press ahead with liberalisation and encourage the new export orientation of the economy. Prior import licence requirements have been abolished on 95 per cent of all tariff items (covering 70 per cent of trade by value) since joining the GATT.

Throughout this year reductions have been made in duties and Mexico is pledged to reduce its maximum tariff rate to 30 per cent by November 1988. By then there will be only five tariff levels: 0 per cent for raw materials and basic consumer goods; 10 per cent for goods not produced in Mexico; and 20 per cent, 25 per cent and 30 per cent for goods produced in Mexico depending upon their degree of processing.

The Government has also been progressively eliminating its system of official prices. Last year official prices disappeared on some 200 tariff items and the remainder are due to disappear before the end of the year. Mexico has been aided in its trade liberalisation initiative by a $500m World Bank loan.

Robert Graham

Motor industry

Compensating for home slump

"WE FOUND that Japanese girls were smaller than Mexican girls," recalls Mr Shoichi Amemiya, Director-General of Nissan Mexicana.

He was talking of the days back in 1982-3 when the government demanded that motor manufacturers which had invested in the country should make a net positive contribution to the balance of payments by buying and marketing abroad other Mexican products.

While lingerie proved unsuccessful, Nissan solved the problem with the purchase and resale of horsemeat, honey, coffee, beans for animal feed and minerals.

Since 1985 Nissan has been able to satisfy the requirements despite being an operation originally established in 1966 to produce solely for the home market. It has used a higher proportion of Mexican-made components than required by the investment code and found increased exports to the region at a time when domestic sales have been severely depressed.

Mexico's output fell from a peak of 581,000 vehicles in 1981 to 257,000 in 1986. The most recent forecast of the Asociation Mexicana de la Industria Automotriz is that production in 1987 will fall a further 6-7 per cent with a final outcome of about 240,000 cars and lorries.

During the first three-quarters of this year the number of vehicles sold was 175,520, down 13 per cent on the same period of 1986. The fall was partly attributable to the strikes in the summer that stopped production for over 100 days at Ford's plant near Mexico City and halted work for nearly two months at Volkswagen's factory at Pueblo.

Yet both these operations are geared to the domestic market. Nissan was able and delighted to take up the slack. In the January-September period with sales the equivalent of about $400m it produced 50,862 units compared with 45,704 in the same period of 1986 and overtook VW to become the largest manufacturer in the process.

Mr Amemiya predicts that over the year as a whole the company's second biggest operation outside Japan - substantially exceeding those in Spain, the UK and Australia - will produce 70,000 Tsuru cars (the equivalent of the Senta model manufactured in the USA) commercial vans and mini-buses. Of the total, 16,000 will be exported.

In addition, Nissan expects to sell abroad 70,000 engines made at its plant at Lerna, mainly to the US for use at its factory in Tennessee, as well as about 80,000 trans-axles as well as other components. Because of its big American operation and sensitivity about a possible political backlash against the use of cheap Mexican labour in border *maquiladora*, the Japanese company has kept well clear of its in-bond industry.

Mr Amemiya reckons that the cost of producing a Nissan vehicle in Mexico, in spite of lower labour costs, is only 10 per cent less than in the US and slightly more expensive than in Japan.

The industry has to contend with the requirements under the decree of 1983 governing automotive investment that local contents of passenger cars should be no less than 60 per cent (though only 30 per cent for exported models). Nissan has achieved as much as 70 per cent for its Tsurus although the current level is 65 per cent.

As for the company's 7,000-strong labour force, Mr Amemiya comments: "If you train and motivate them they can be very good workers - with the quality of good soldiers but not sergeants or petty officers." Something extra is needed to cope with technological change, he adds. In the meantime, the Nissan affiliate employs 700 Japanese staff.

In finally negotiating an end to the Ford strike Mr John Ogden, chief of its domestic manufacturing operation, says that the company established "essentially competitive ongoing labour costs" for the production of its Thunderbird, Cougar and Topaz passenger cars and lorries for the local market and has achieved a successful restructuring of the business.

Its main recent development has been the plant at Hermosillo, inaugurated in November 1986, to produce the compact Tracer model (essentially a Mazda design) for the US market. This year output should total 60,000 compared with a capacity of 130,000. Ironically the project was originally conceived mainly as means of satisfying the State's requirements about enterprises making a net contribution to the balance of payments.

To the benefit of them, as well as a large part of the motor industry, exports have increasingly compensated for the slump in domestic demand. In the January-September period vehicles sold abroad numbered 116,109 compared with 45,561 in the same period of 1986.

Last year, a recent survey by the business magazine Expansion showed that Chrysler (second), General Motors (third), Ford (fifth), VW (sixth) and Nissan (thirteenth) were amongst Mexico's top exporters. Their sales abroad totalled M$1,385.4bn (the equivalent of $1.5bn at the average controlled exchange rate) during the year or rather more than one third of those of the top exporter Pemex. In 1987 they will be considerably boosted by the output of Ford's Hermosillo facility. Exports, including components by the industry to the US, the main market, could amount to as much as $2.5bn this year.

Seven manufacturers of components are figured in the list of Mexico's top 50 exporters with sales worth M$90,387bn last year (about $900m). In addition to them there are the many maquilladores serving the US motor industry, not least those of General Motors which has its Mexican manufacturing operations like those of Chrysler geared to the US market.

A report by Booz, Allen Hamilton prepared for the World Bank this summer, identified car components as a potential area of major expansion, in particular transmission equipment, ignition parts and axles. Much of the World Bank's $1bn financing facility designated for export-orientated industries is likely to go to this sector as will possibly part of the $240m credit for similar purpose be made available by the Import-Export Bank of Japan.

Notwithstanding the collapse of the domestic market and restrictive investment regulations, the industry has expanded considerably at a time of depression because of the opportunities afforded by the US market and the availability of cheap capital through Mexico's debt equity scheme.

Through it Chrysler has raised $130m worth of peso financing, Nissan and Ford about $60m each, Mercedes Benz $20m for its commercial vehicle production, and VW no less than $141m.

Richard Johns

David Gardner profiles a remarkable poet

Sniping at the illiberal

OCTAVIO PAZ, among the very best of living poets, is an uncomfortable Mexican; a man possessed of a truly universal culture, yet tied to a profoundly nationalist country.

The discomfort is reciprocal. Mr Paz is honoured, but not quite trusted by the PRI regime which has dominated Mexico throughout most of this century, or by many Mexican intellectuals who have been flayed mercilessly by the poet for their "theological" mind-set, and financial dependence on the state.

"It's a bad idea for an intellectual to feel comfortable," said Paz, a vigorous 73, smiling. "Temperamentally, I prefer to be towards the margin." But he has never been marginal.

His 1950 essay on Mexico, the Labyrinth of Solitude, an astonishing *tour de force* of Paz's supple, reflective imagination, has fixed an image of Mexico for hundreds of thousands, comparable in its indelibility, many critics have suggested, to Eisenstein's masterpiece on the Mexican Revolution, Que Viva Mexico!

His polymathic essays - on art and politics, on aesthetics and poetics, on anthropology and language ("the word industry", as he calls it, "its carpentry, bricklaying, its gardening, plumbing and electricity") - have come more fluently than his poems.

These have been published in five major collections from 1949 on, and the fifth of them, Arbol Adentro (The Tree Inside), appeared this month, breaking an 11-year silence.

Its publication clearly has brought him great joy, coming in a year which has seen a major revival of Mexican poetry, with new books by several outstanding young poets, most of them published by Mr Paz's monthly magazine, Vuelta.

Magazines are perhaps the thread linking Paz's literary career: he founded his first major magazine, Taller (among the first in Spanish to publish work by Rimbaud, Breton and Lautreamont) in 1938, on his return from the Spanish Civil War, in which, like most writers of the time, his sympathies were engaged on the Republican side.

"Like all young men, we wanted to change the world. Since we couldn't make a revolution, we founded a magazine," Paz recalls wryly.

The poet was and is very much of the generation of "the God that failed", of the Koestlers and the Silones, of Victor Serge and George Orwell, though his disenchantment with Marxism was perhaps more gradual.

Enrique Krauze, the liberal historian, who edits Vuelta, writes that "Paz lived Marxism in a similar way to the students of 1968: as a prophecy - and by moments, a poetry - of liberation".

From there Paz has evolved, Krauze says in an acute essay on Paz the thinker, through a succession of "personal Kronstadts" to the practice of "counter-prophecy..... with all the passion of religious disillusion".

Yet though the largely left-wing Latin American intelligentsia have come to regard Paz as an apostate and reactionary, he has not become an entirely Manichean, Solzhenytsin-like figure.

As late as 1968 he came to regard the worldwide student revolts as "a resurrection of the libertarian spirit, crushed in Spain Hungary, and Czechoslovakia". He resigned as Mexico's Ambassador to India in protest at the regime's massacre of students on the eve of the 1968 Olympic Games.

His attitude towards the US - where he lived during the war and taught, at Harvard, in the early seventies - has oscillated between studied indefinition and distaste, the latter for North American habits, of "substituting moral judgment for historical vision". His own imagination is essentially European, overlain by Mexico's and by the Orient, in which he travelled extensively as a diplomat.

Octavio Paz

Thus he is not that easy to pigeonhole and is best seen as a revisionist sniping at illiberal forms of power and the art forms they produce.

In a series of essays on the great Mexican muralists, Rivera, Siqueiros, and Orozco - entitled, appropriately enough, "Re/Visions" - Paz lays into their "allegorical Manicheism" and "static view of history", adding : "The Mexican government has made of muralism a national cult, and obviously, as in all cults, criticism is proscribed. Mural painting belongs to what we might call the waxworks museum of Mexican nationalism."

A pre-Columbian statue, which like nearly all Meso-American artifacts is treated with uncritical reverence here, gets similarly short shrift in Postscript, Paz's post-68 reflection on Mexican history and culture: "Our art critics become ecstatic before the statue of Coatlicue, an enormous block of petrified theology. Have they really *seen* it?"

But these tirades against monumentalism and "the dangerous anachronism of State-sponsored public art" are not indiscriminate. His essay on Eduardo Chillida, for instance, is an evocation of the Basque monumentalist sculptor's energy of form, space, sound and light as brilliant as the most intricate and finely observed Basque poem.

Sipping strong coffee in his Mexico City retreat - layer upon layer of books punctuated by Ghandara reliefs, the symbiosis of Greek and Oriental culture - Paz talks about the possibility of the ruling PRI democratising itself, of becoming, perhaps, like the Congress Party in India, and about the need for Mexico's intellectuals to reform themselves.

"They are the heirs to the theologians of the colonial epoch, allies of the throne. Our intellectual class needs to reform its conduct and temperament more than what it actually thinks.

"We have helped clean up the intellectual atmosphere of Mexico," Paz said in 1981, on the fifth anniversary of Vuelta, which emerged from an earlier magazine, Plural, which fell victim to a government-inspired palace coup against its proprietor, Excelsior, the leading newspaper.

A recurrent theme in Paz's conversation is that many of the same left-wing intellectuals who attacked him in the 70s with intolerance for his criticisms of the Soviet Union and Cuba, now employ many of the same arguments but without recognising the paternity.

> The models of development we are offered today by the West and the East are compendiums of horrors. Can we invent models which are more human and correspond more to what we are?
>
> People from the outskirts, inhabitants of the suburbs of history, we Latin Americans are uninvited guests who got in through the back door of the West, intruders who have arrived at the party of modernity just when the lights are about to be put out - we arrive late everywhere, we were born when it was already late on in history, we don't have a past or, if we have one, we spit on its remains. Our peoples slept for a century, and while they slept they were robbed, and now they are in rags. We haven't even managed to conserve what the Spaniards left us. We have stabbed each other in the back......
>
> Even so, from the so called modernism of the Fin-de-Ciecle in these lands of ours which are hostile to thought there have sprouted, here and there, dispersed but without interruption, poets and prose writers and painters who are the equal of the best in the world. And now, will we at last be capable of thinking on our own account? Will we be able to conceive a moderate development which is our version of modernity? Will we be able to design a society which is not founded on the domination of others and which does not end in the frozen police paradises of the East nor in the explosions of nausea and hate which regularly interrupts the banquet of the West?
>
> **Octavio Paz**

This seems of a piece with the need to feel embattled. Despite his eminence, recognised as much by his adversaries as his admirers, Paz does not seem resigned to becoming some sort of national institution. In that sense he was probably saved by not being awarded this year's Nobel Prize for Literature, for which he appears perennially on the short list.

With that characteristic horror of the static, the petrified, and the doctrinal, which runs through his work like a chorus, he says: "There is nothing worse for a country than to mummify its writers."

Tourists may miss out on traditional pursuits

Tourism

Plan to avoid past mistakes

ON DECEMBER 12, more than 200 people will arrive at Tangolunda Bay, Huatulco, at the opening of the first phase of Mexico's newest and most ambitious tourist project.

Carved out of jungle and mountain and washed by nine bays of crystalline sea, Huatulco used to be home to a few hundred people ekeing out a meagre living remote from the rest of the country.

By the year 2018 it is projected to be the world's largest tourist development with 26,750 rooms, more than 2m visitors a year, permanent jobs for nearly 100,000 people producing \$214m annually in foreign earnings and up to 30 per cent of the GDP of Oaxaca state.

This month, ahead of schedule, both the resorts' new international airport and the \$28m Club Med village will receive the first visitors. They will stay in traditional "casitas" designed by the Mexican architect Ricardo Legorreta.

The Mexican government is determined that Huatulco will benefit from the mistakes of the organically developed plastic paradise of Acapulco and the lessons of Cancun, the most popular state venture, carved out of jungle on the Yucatan peninsula, now receiving one million visitors a year.

"People get to Cancun and say they see nothing of Mexico," explained Mr Enrique Hernandez, Director of Location Development at Fonatur, the state agency responsible for funding and developing tourism in Mexico, which provides 85 per cent of the finance for private hotel development.

At Huatulco, buildings will be limited to six storeys and less than 10 per cent of the total 2,100 hectares will be developed for tourism. Most of the area will be an ecological reserve, which Mr Guillermo Grimm, senior promotion official at the Ministry of Tourism, told the local British Chamber of Commerce last month is fitting when it was created by a joyful god to be the most beautiful series of bays in the world.

Like many new tourism developments in Mexico, the Club Med village is a joint venture between public and private interests with financial backing from Club Med, Fonatur, Bancomer and American Express.

Until the early 1970s, tourism in Mexico grew as towns developed around the coastal resort, chiefly on the Pacific, with little planning or thought for the balance of nature. Acapulco, for example, is as renowned now for its polluted sea as for its sunshine and multi-storey hotels.

Fonatur's role is to seek out sites for tourist development where nothing else is possible at a reasonable cost. Before Cancun was developed, the Yucatan jungle made it impossible to introduce any other industry. The area was scarcely populated with poor infrastructure, although it had thrived as a producer of natural fibres at the turn of the century until plastics killed the industry.

Baja California has high potential but lacked water and people and, while a natural area for sea-based activities, was limited until last year by the red tape involved in bringing in a boat. "You needed at least 17 different permits," said Mr Hernandez.

Next year, two marinas will open at Baja California - one at Puerto Escondido, once a hiding place of an English pirate called Cromwell who gave his name to the local wind, the *coromuel*, which enabled him to sail into the enormous, waveless bay. The development around the marina will be a traditional hacienda town, with no building higher than three storeys.

Each of these developments is part of the Mexican government's master plan, designed to develop both the potential of tourism as a major source of foreign exchange earnings and as a vehicle for regional development.

Tourism was dealt a serious blow in 1985 when a massive earthquake badly damaged parts of Mexico City and the resort area of Ixtapa. Although Mr Grimm confidently pointed to an average 10 per cent increase in tourism earnings between 1970 and 1986, it is only just beginning to recover its position as the second biggest foreign exchange earner behind oil.

The recovery owes much to the crash programme launched last year by President Miguel de la Madrid, with whose name Huatulco will be associated, as major tourist developments have been with previous presidents.

The programme included increasing the budget for promotion abroad from \$20.2m in 1985 to \$22m in 1986, a huge increase in Mexican terms from M\$7,600m in 1985 to M\$11,600m in 1986 according to an official report from the tourism ministry. This year it will grow to about \$25m.

In a paper prepared by the Ministry in January, the crash programme forecast more than 5m foreign tourists this year, who would spend \$1.9bn. The figures have now been revised upwards: by September there had been more than 4m foreign visitors, an increase of 19 per cent over the same period in 1986. In the first eight months of 1987, 18 per cent more foreign tourists arrived, spending \$1.7bn, a 35 per cent increase over the same period in 1986.

This boom in tourism has been helped partly by promotional activities, including the beaming into the homes of 80m people the TV coverage of last year's World Cup which itself brought in an extra 30,000 visitors. But more important has been the relaxation of regulations governing foreign investment in tourism. By law, foreigners can own only 49 per cent of any Mexican project but it is now possible to obtain permission for up to 100 per cent. Permission is granted only on a case by case basis, allowing considerable scope for delay and retention of the doubts by cynical observers of the Mexican system.

But the introduction of debt equity swaps last year has proved a major boost to foreign investment in tourism. Between June 1986 and March 1987, \$334.2m of debt equity swap money went to tourism; 22 per cent of the total and providing finance for 30 new tourism projects. The largest slice (\$104.5m) came from the US, from where more than 80 per cent of foreign tourists come, with Spain (\$87.5m) and Britain (\$84.4m) not far behind. Britain's investment share is expected to grow; Mr Grimm told the British Chamber last month that his impending visit to London would include talks with Lonrho and that he hoped they would back a new project similar to their existing one at Acapulco.

The falling dollar has also helped tourism and hotel prices are heavily discounted to avoid the effects of Mexico's hyperinflation. And the devaluation of the peso has simply meant that fewer Mexicans travel abroad, thereby reducing the balance of tourism earnings.

Mexico is trying to encourage more tourists from Europe and Japan, but is hampered both by distance and the difficulties of travel to a country with few direct flights from abroad. Five US airlines have landing rights under an air services agreement which is being renegotiated with the aim of opening up more routes from the US.

Bilateral talks between Britain and Mexico on a new air services agreement began towards the end of November with the aim of introducing direct flights next year. That is sorely needed. At present travelling to Mexico from Britain involves changing planes at one of several US airports, formally immigrating and passing customs, before being allowed to proceed.

It can be an arduous journey. My own trip took 25 hours because PanAm cancelled the connecting flight from Miami to Mexico City on a day when Miami Airport seemed totally unprepared for the number of arriving passengers.

Pat Healey

Tourism

Year	Number of Tourists (Thousands) Inflow	Outflow	Revenue \$m	Expenditure \$m	Balance \$m
1982	3,768	2,671	1,405.9	787.7	618.2
1983	4,749	1,971	1,624.5	441.3	1,183.2
1984	4,654	2,697	1,952.7	648.6	1,304.1
1985	4,207	2,731	1,719.7	664.3	1,055.4
1986*	4,625	2,469	1,791.7	620.2	1,171.5

*Preliminary
SOURCE: Informe Anual 1986, Banco de Mexico.

Where the tourists come from

	1982	1983	1984	1985	1986*
	%	%	%	%	%
United States	84.8	86.2	84.5	84.2	84.2
Canada	3.1	3.6	4.0	4.6	5.3
Europe	5.2	3.8	4.6	3.5	3.2
Latin America	6.4	5.9	6.2	7.1	6.9
Others	0.5	0.5	0.7	0.6	0.4
Total	100.0	100.0	100.0	100.0	100.0

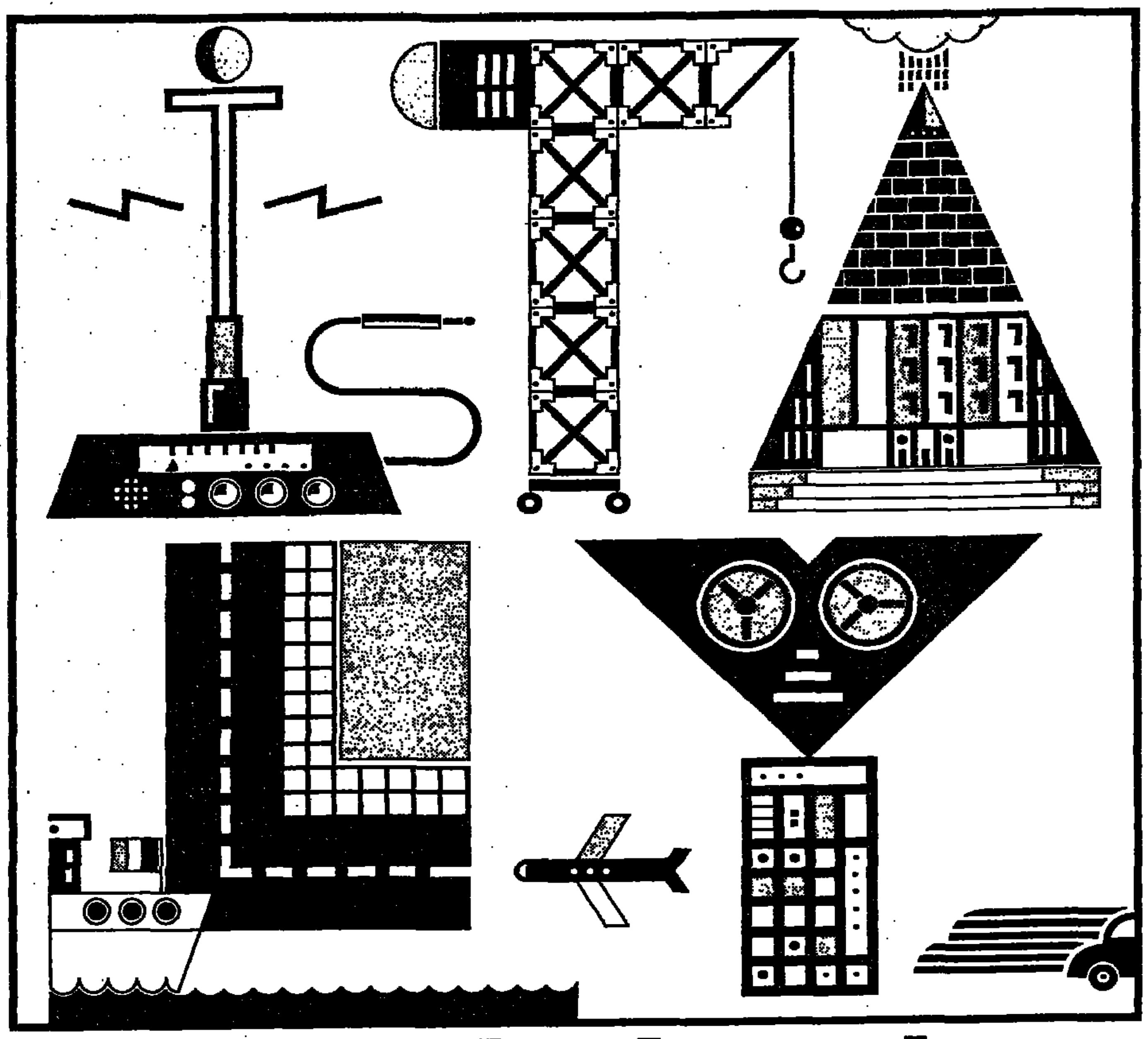
*Preliminary
SOURCE: Banco de Mexico.

Acapulco: as renowned now for its polluted sea as for its sunshine and multi-storey hotels

SECTION IV

FINANCIAL TIMES SURVEY

Alarmed by the markets' slump and gloomier world trade prospects, Italian industrialists are complaining bitterly about the politicians' failure to carry out the reform of labour relations and public services needed to help them weather the difficult years ahead, says **John Wyles**



Italian Engineering

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Frontpiece: Grundy & Northedge Designers

Waiting for reform

THE SENIOR manager from the Italian state holding company leaned back in his chair and laughed. "Money is never a problem in Italy." Delivered in April 1987, the statement deserved burying in a time capsule to confuse some distant future generation of students of Italian history.

At the time of its delivery, the remark had a sound ring of truth. For more than seven years, Italian governments had been financing their steadily growing budget deficits relatively painlessly, encouraged by a national propensity to save and invest in public paper

The same liquidity has been a source of comfort to private industry,lining a stock market boom in 1985-86 which provided thousands of billions of lire to strengthen capital ratios and to finance takeovers at home and abroad.

Industrial profits, which this year could rise by an average of 15 per cent, have boomed and even the employed wage earner has enjoyed access to this apparent garden of plenty. Falling inflation, substantial indexation (despite the Craxi Government's historic success in altering the *scala mobile*) and some not ungenerous pay awards have generated substantial increases in purchasing power

Yet our jovial man from the public sector was speaking, if not on an historical cusp, at a probable turning point in a hitherto quite satisfactory decade. Money is now becoming a problem in Italy.

The crash in the world's major stock markets accelerated a trend which had began on the Milan bourse while New York and London were still running with the bulls. Around 30 per cent has been wiped off the capital values of the country's large industrial companies since the beginning of the year.The stock market fall is not a direct threat to the many Italian companies, led by Fiat, which have rebuilt their balance sheets. Those, however, who gambled on continuing market strength to refinance expensive acquisitions, most notably Montedison, are looking for cover.

It will be surprising if the downturn in the markets does not mean a broader resort to the banking system by industrial companies at a time when, by reason of the public sector deficit and fears of a resurgence of inflation, credit will be relatively tighter in Italy than elsewhere.

●The public spending reforms which might have set the budget deficit on a declining path but whose absence this autumn has forced a weak government into bringing in the most unpopular budget for years.

●The labour market reforms which might have made for more flexible employment practices, more effective trade unions and curbed the growth of the black economy.

●The changes which might have raised the quality of public services whose inefficiency is a social harassment for the ordinary citizen and an added cost for business.

●The health service reforms which might have made the experience of being old or sick less expensive for the state and less alarming for the citizens of so many parts of the country.

The fear that they are facing a future of much reduced world growth, or even recession, with unnatural handicaps not imposed on their main competitors, is creating a bitter mood among industrialists. If Mr Luigi Lucchini, the president of Confindustria, the representative of Italian companies, is no slouch in reading the riot act to politicians, the man who wrote the manual is Mr Cesare Romiti, the stainless steel managing director of Fiat.

While many politicians regard him as arrogant, and public affection and respect is channelled more towards his chief, Mr Giovanni Agnelli, Mr Romiti is not concerned about his popularity ratings. Since September, he has devoted so much time and energy to trying to mobilise stronger business pressure on the politicians that he has seemed to be running for some office or other.

Whether he is or not remains to be seen, but in late November he delivered an extremely tough critique of public administration which was also an explicit statement of the priorities which Mr Lucchini's successor, whoever he may be, should follow when he takes over Confindustria next year.

Warning that 1988 and "still more" 1989 would be difficult years for the Italian economy, Mr Romiti pointed out that industry had made intensive efforts to make itself more efficient and competitive. But no comparable effort had been made by public administration with the result that industry's enhanced competitiveness was "heavily reduced".

This was the main, 'bitter' fact *that Confindustria must bear in* mind in choosing its new leadership, said Mr Romiti, who added with a somewhat campaigning flourish: "I am convinced that a new and courageous economic policy which frees and supports entrepreneurial energies, which dismantles old and worn privileges and which gives to public structures the profile of a modern industrial country would find much more consensus than we tend to believe."

His reference to consensus was a bait designed to concentrate political minds which in Italy are much more focused on maximising agreement than on clearly defining objectives. The quest extends beyond organising agreement within the governing majority to seeking to avoid conflict with opposing parties.

Mr Adolfo Battaglia, the former journalist who is a senior member of the Republican Party and now Minister for Industry, laments the outcome of the June general election. He says it fragmented further political representation in Parliament and confirmed, with the arrival of the Greens, "a certain anti-industrial spirit in the country."

In practice, this will mean that environmental concerns can no longer be ignored as in the past, says Mr Battaglia. "They have not been properly handled in Italy up to now," he adds.

Like most members of the tiny Republican Party, he itches to modernise Italy in ways which would be quite acceptable to Mr Romiti. By profession, however, he is required to have more patience with the political system which has so far failed to deliver efficiency and reform for the public services.

As far as industrial policy is concerned, he sees the European Community's 1992 deadline for removing its internal barriers as an important source of pressure in Italy. Among the initiatives he is working on is a reform of the industrial aid system which has saddled the Government with an expensive flock of lame ducks.

"This will be prohibited by Community law and so we must have a new approach to ensure competitiveness," says Mr Battaglia.

Having taken over at the end of July, the new Minister is still obviously feeling his way. Should there be another change of government in the spring he has a good chance of retaining his portfolio and, therefore, of providing some continuity of approach over the next year or so.

Mr Felice Mortillaro, the director general of Federmeccanica, *which speaks for private engi*neering in Italy, implies that Mr Battaglia has a lot to learn. Another bitter critic of the politicians, he argues that Italy lacks any proper industrial policy and any moves made in that direction have been the wrong ones.

He says the priorities must be fourfold:

●A reduction of labour costs which he claims double the actual cost of wages because of social security and pension contributions

●A freer labour market system with greater flexibility for hiring and firing

●A credit system which favours industrial investment

●An export policy through which the Government would offer a range of commercial services.

According to Mr Mortillaro, a slipping performance in export markets is the central problem for industry and the economy as a whole. The balance of engineering's exports over imports has fallen by L1,700bn this year and businessmen say it will fall further unless steps are taken to improve their competitiveness.

Apart from a reduction in the social security burden, many would also like to see a lira devaluation since its real effective exchange rate (according to the IMF) is higher than in the first half of the 1980s and even above last year's average level.

Other businessmen, such as Mr Romano Prodi, president of IRI, the state holding company, would add a privatisation policy to the list of requirements. One of the reasons for the bad feeling between some parts of private industry and the politicians is the banana skin which regularly lies in wait for a privatisation exercise.

IRI's sale of its *SME* food subsidiary was blocked two years ago by political interference and this year's major scheme for merging IRI's Italtel with Fiat's Telettra has been shipwrecked by a fear of political interference. It is quite clear that Mr Romiti passionately believed that the appointment of Italtel's managing director, Mrs Marisa Bellisario, as managing director of the new merged company, Telit, raised an unacceptable risk of Socialist Party involvement in its policies. Mr Romiti will not have Fiat or its companies running the risk of party political infection.

Less publicised, has been the recent breakdown of co-operation talks between Ansaldo and the privately-owned power plant constructor, Franco Tosi, which has chosen, instead to go into partnership with Asea-Brown Boveri.

Both this and the Telit case are important opportunities lost for Italy to create units capable of competing efficiently in the post-1992 EC. The Government and the state holding companies still have some useful opportunities available for corporate reshuffling but they would do well to accept that privatisation should mean an end to any possibility of party political interference in the running of a company.

Defence industries fight harder for sales

Switch to joint ventures

COMPETITION IS fierce and increasing. The weak dollar and low crude oil prices have eroded opportunities in the formerly high-spending markets of members of the Organisation of Petroleum Exporting Countries (Opec).

Economic difficulties in third world countries discourage sales. This is a depressing checklist for the boards of directors of Italy's defence engineering companies. Yet the results posted by some major companies in 1986, and expected as the outturn for the current year, reveal a sector which seems to be not only successfully holding off threats of retrenchment, but actually advancing.

According to state-owned Agusta, markets are becoming increasingly harder to penetrate and sales more difficult to achieve. However, in spite of this, Agusta has produced results which suggest that conditions are not entirely bad for business.

Gruppo Agusta is part of the EFIM holding corporation. It has three operating divisions: helicopters (for which it is best known), fixed wing aircraft and aerospace systems. Consolidated annual losses amounted to L165bn (£75m), L145bn and L85bn in the three years 1983, 1984 and 1985. The situation was clearly far from encouraging. But in 1986 Agusta climbed back to profit, remunerating its state owners with a net result of L15bn. Moreover, the company said that the current year will show a further substantial improvement. "Exceptionally *good results have been produced* by the helicopter division," said an Agusta executive.

The company's efforts centre on three helicopter projects, the EH101, the Tonal and the NH90. There have been important steps forward this year on the EH101, being developed in a joint venture with the British Westland company. The first prototype flew on October 9 in England and the second will be making its maiden flight on December 14 from Agusta's Cascina Costa works north of Milan.

Originally conceived as a naval helicopter, the EH101 was launched with orders for 50 from the Royal Navy and 38 from the Italian Navy. The project was boosted early this summer when Britain's defence ministry ordered a further 25, in a utility version, for the army.

More recently the Canadian Government has taken an option for 50, opening up prospects of export sales. Indeed officials at Agusta believe that foreign customers will eventually buy significant numbers of the EH101, either in naval, utility or civil versions. Agusta takes special pride in the Tonal, a four to five tonne helicopter being developed by Joint European Helicopter. This is a collaborative venture between Agusta (38 per cent), Westland (38 per cent), Fokker (17 per cent) and Casa (5 per cent). The Tonal is based on the successful A129 civil helicopter, designed and developed entirely by Agusta. The company has already built an anti-tank helicopter based on the A129.

Agusta claims that the Mangusta, now in service with the Italian army, is the world's most advanced combat helicopter. Pre-definition studies for the Tonal, *described by the company* as the European combat helicopter for the year 2000, will be completed by June next year.

While pushing ahead with its three helicopter projects, Agusta is also giving increasing importance to avionics. "About one half of the cost of a modern aircraft is in onboard systems. This has therefore become a strategic sector," said a company executive.

Agusta Sistemi started last year. There is an investment programme of L80bn to develop onboard computers, command, control and communication systems, simulators and missile systems. Turnover is expected to double from L30bn in the current year to L65bn in 1988. Agusta forecasts that sales by its avionics systems company will reach L166bn in 1990.

Aeritalia is also attaching increasing importance to the design and manufacture of avionics systems. Like Agusta, Aeritalia is state-owned. Part of the IRI holding corporation, the company's projects concern fixed wing aircraft. It is the Italian partner on the Tornado multi-role combat aircraft as well as in the four-nation Eurofighter consortium.

Important decisions regarding the EFA project are expected to be taken at the beginning of next year. *In* common with its British and West German partners, the Italian company is *looking to EFA to fill the development* and manufacturing gap caused by the decline of work on Tornado.

Officials at Aeritalia's headquarters in Rome point, however, to the considerable workload in-hand on the AMX close support, interdiction and reconnaissance aircraft. This bi-national project with the Brazilian company Embraer got underway in the early 1980s. The first aircraft of a total of 187 for the Italian Air Force are due for delivery next summer. Brazil has a requirement for 79.

Both Aeritalia and Embraer believe that the AMX has the potential to win export orders, particularly from developing countries. AMX, Tornado and EFA are compensating for a stagnant situation with the G222 military transport. The Italian company notes that the reason for the lack of orders is that the G222's market is mainly with developing countries and that these face funding difficulties. This is hardly a good sign for the AMX.

About 60 per cent of Aeritalia's turnover is derived from the defence sector. Electronic systems are of growing importance in the corporate budget. The company is engaged in work on the Italian army's Catrin information network.

Nearer to its aviation roots, Aeritalia has a contract to modernise the avionics fit of the Chinese A5M aircraft. Selenia, another company belonging to the IRI state holding corporation, is also busy on Catrin. It is responsible for the battlefield tactical aircraft surveillance sub-system. However, Catrin is not the main project being undertaken by the Rome company.

Missile activity heads the list in the defence sector. The first deliveries are being made of the Skyguard/Aspide anti-aircraft system and the first foreign orders for the new Spada system have been received. Work is proceeding on the multi-role Idra. "This is a 'fire and forget' type and will be operational in the 1990s," said Mr Enrico Gimelli, Selenia's managing director. He added that the company is examining possibilities for European collaboration on development of a new missile system.


The EH101 helicopter, recently launched at Yeovil, is a joint venture between Westland and Agusta, part of the EFIM Italian state group — Ashley Ashwood

Selenia is *not* a newcomer to collaborative projects. Together with the British Marconi Radar Systems and the French Thompson it is working on the development of the European multifunction phased array radar (EMPAR). This is the European solution to the radar requirements of the Nato frigate project for the 1990s.

Further afield, a joint venture between Selenia and the Australian Ansett company has become operative. "This will permit the two companies to operate better against international competition in aiming for some important Australian projects in both the civil and defence sectors," said Mr Gimelli.

In contrast to Agusta and Aeritalia, whose results should be better this year, Selenia is expecting flat sales and profits. In 1986 it posted net profits of L4bn on turnover of L709bn, a disappointment after 1985's L15bn profits on sales of L698bn.

But a company whose results will show a significant improvement in 1987 is Elettronica. Earlier this year the company's board of directors noted "1986 was not a good year for Elettronica SpA." The company returned a loss of nearly L17bn on turnover *of L126bn, after L3bn of* losses on turnover of L185bn in 1985. A significant increase in turnover and a positive net result is forecast for the current year.

The turnround at Elettronica is attributed to reorganisation measures which were implemented last year. Substantial cost savings were achieved by cutting about one quarter of the workforce. The company says that investment made in research and development in earlier years has started to yield results and assisted the return to profitability.

Elettronica claims to be one of Europe's leading companies in the field of electronic warfare. It represents Italy in various international programmes. On the Tornado, it has responsibility for the self-protection and emitter location systems. On the EFA the company is involved on the defensive aids sub-system, while for the Nato frigate for the 1990s it is working on feasibility studies for the electronic defence system.

Elettronica generates nearly 80 per cent of its turnover in export markets. It seems to have been more vulnerable to the adverse circumstances than other Italian defence manufacturers, or less well-placed to benefit from the recent surge in domestic programmes. It has, however, followed the pattern of forming alliances.

With Selenia it forms the Select consortium which is examining electronic defence for Nato as well as working on a feasibility study for a short range anti-radiation missile. All Italy's main defence engineering companies have achieved good results in export markets.

A good level of orders from Italy's own defence ministry has been an important factor in today's non-buoyant conditions. All agree that collaborative projects involving more than one nation are the path which will be followed in future.

"Costs are far too high for any one country to sustain. Joint ventures are an obligatory strategy," said an executive at Agusta.

David Lane

Telecommunications

Italtel seeks new outlets for equipment

TWO YEARS of negotiations between state-owned Italtel and Fiat's subsidiary Telettra were brought to an end five weeks ago with curt press statements from the protagonists. The aim of the long-running saga had been to merge the two telecommunications companies into a single entity, Telit. Both Italtel and Telettra were to have taken stakes of 48 per cent, with the minority balance of 4 per cent being held by the soon-to-be-privatised investment bank Mediobanca.

The joint venture between Italtel, which is owned by Italy's giant state holding corporation IRI, and Telettra, a subsidiary of the country's largest private sector company, foundered officially over the proposed appointment of Italtel's managing director Marisa Bellisario to Telit's top executive job.

Earlier difficulties regarding the partners' stakes in the venture had apparently been overcome. In order to achieve parity of shareholding, Fiat had agreed to pay a substantial entry fee. Nevertheless the large difference in size between Italtel and Telettra probably always presented a stumbling block to the equal partnership which Fiat was seeking. At L1315bn (£596m), Italtel's turnover last year was well over twice Telettra's sales (L555bn).

The state-owned company holds a commanding position in Italy's domestic market for telecommunications equipment. Italtel has a *market share of over* 50 per cent in public switching and a leading 30 per cent in user systems. In these two sectors Telettra is a minor player with a slender 3 per cent slice of the business. Only in the transmission sector does the Fiat subsidiary (29 per cent) match the state-owned concern (24 per cent).

Both companies are, however, small operators compared to the main European and world manufacturers. The Telit venture was seen as a way of getting on closer terms with the competition. It should have offered a united Italian position in the bargaining which is underway between the manufacturers of telecommunications equipment for prospective partnerships on a global scale. But it is widely thought that the question of international collaboration and the choice of non-Italian partners was itself a matter of contention between the senior management of Italtel and Telettra.

Before the merger negotiations were aborted, they had not succeeded in answering the taxing question regarding the merits of single or multiple partnerships. Now both companies are heading their separate ways. Given Italtel's undisputed position as the leading company in Italian telecommunications, it seems inevitable that it will be the focus of attention, rather than Telettra. Indeed this was confirmed at the Telecom '87 exhibition in Geneva at the end of October.

Italtel's stand was in many respects the flagship of the Italian presence in Switzerland. Company officials note that the integrated services digital network (ISDN) demonstration attracted considerable attention from visitors to Telecom '87.

Italtel emphasises that the future lies along an ISDN path which allows digital transmission, switching and processing of all types of information.

The ISDN demonstration at Geneva worked extremely well, says Italtel. It was a cross-border tie-in to an existing pilot link between Italtel's facilities near Milan, the IRI-Stet Group's basic research centre Cselt in Turin and the headquarters of the telephone corporation SIP in Rome. Two ISDN subscriber stations were installed on Italtel's stand. The first offered digital telephoning, high quality audio-conferencing, facsimile and telewriting on a 64kbits *per second* channel, together with graphics monitor and packet and videotel access on a 16kbits per second channel. Users of the second station were offered digital telephone, facsimile, graphics and full motion colour picture on the high-speed channel and personal computer data communication on the slower channel.

The Geneva demonstration showed the types of service which should become commonplace towards the end of the century. Italtel says that the demonstration paves the way to a new phase of extended pilot service. This will start next year in nine Italian cities. Over a two-year period 30,000 subscribers are expected to join the service. The company forecasts full operation of ISDN during the 1990s.

Italtel's ISDN operations centre on its Linea UT digital public switching system, second generation equipment using fully distributed modular architecture. Italtel claims that with Linea UT it wins a place in the forefront of technology.


Marisa Bellisario, managing director of Italtel: leading player

"Our Linea UT digital exchanges are decisively innovative public switching systems. The distributed architecture that distinguishes Linea UT is used by only two other systems in the world," Mrs Bellisario said in Geneva.

The system's main technical features are flexibility, achieved through hardware and software modularity, capability to handle analogue, digital and ISDN subscribers simultaneously and a high level of automation for operation and maintenance functions. These characteristics allow significant savings in management costs, as well as safeguarding investment in earlier equipment.

Italtel presented the first UT system at the 1983 Telcom exhibition. This was the UT 10 for small and medium capacities up to 20,000 lines. "For the second time, Telcom is an important milestone for Italtel," Mrs Bellisario said. The company presented the UT 100 system at this year's event. This extends the capacity of UT exchanges to over 100,000 lines.

"The Linea UT now covers all network requirements in terms of capacity and performance," claimed Italtel's managing director. The first UT exchanges were installed in Italy at the end of 1984. The 500th was delivered in July this year.

Italtel expects that by the end of December it will have delivered 700 exchanges. Sales of the Linea UT were worth L36bn in 1984. Last year these systems generated L282bn of turnover and in the current year total UT sales are expected to reach L400bn.

Public switching systems are at the heart of telecommunications networks. They are crucial elements for the improvement of service. Only through the introduction of digital exchanges will telephone corporations be able to offer subscribers the possibility of exploring the new communications frontiers of ISDN.

About 80 per cent of the new exchanges which will be installed this year in Italy are digital. But less than 20 per cent of the country's installed exchanges operate on digital technology. Annual investment on new public switching equipment in Italy is currently running at about L1500bn. This includes replacement of old exchanges and new capacity to cover growing demand.

It is believed that Italy needs to invest an additional L10,000bn over the next 10 years in order to digitalise its networks fully. However, it is estimated that, at the present rate of replacing electromechanical equipment, 30 years will be needed to complete the programme of digitalisation. The market for public switching equipment is large, but unseen.

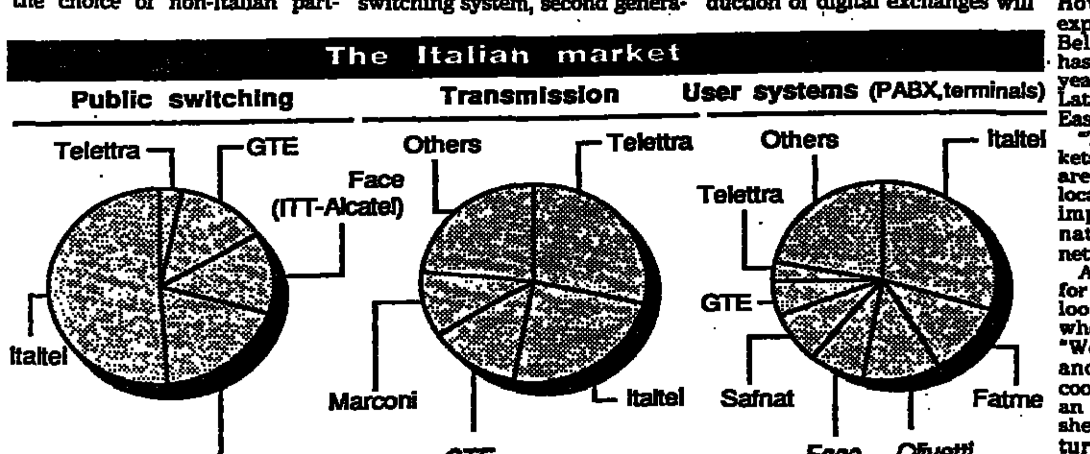
Much more visible is the rapidly growing market for car phones. Demand rapidly outstripped expectations until this autumn, when Italy's tax authorities decided that possession of a car phone would be one of the indices used to make income tax assessments. The threat of fiscal inspection put a sharp brake on applications from new subscribers. Even so, car installations now total 20,000, about three times the number at the end of last year and Italtel expects the figure to double during 1988, and to reach 60,000 by the end of 1989.

In spite of the tax authorities' dampening action, the growth of consumer interest in car phones has considerably exceeded expectations. Nevertheless car phones are likely to remain a marginal area of business for a manufacturing company such as Italtel. The company expects to do bigger business in foreign markets, with public switching and transmission systems, than in selling mobile phones to status conscious Italians at home. However, Italtel has limited experience in exporting, as Mrs Bellisario admits. But progress has been made in the past three years, with sales in East Africa, Latin America and the Middle East.

"Today our major export markets are the so-called accessible areas, countries which lack a local manufacturer and need to implement or modernise their national telecommunications networks," Mrs Bellisario said.

As well as seeking new outlets for its equipment, Italtel is also looking out for partners with whom to collaborate on projects. "We believe that technological and market evolution makes cooperation between companies an important factor for success," she said. Now that the Telit venture with Telettra has broken down, the search for other partners has become more pressing.

David Lane



Source: Financial Times

Chemicals

Awaiting the right formula

FROM THE evidence of the post-war years Italy's national chemicals industry has yet to find strategic consistency or a sense of direction. But the sector now faces an extra element of uncertainty.

The recent upheaval at Montedison focuses attention on the future of the giant privately-owned chemicals company after the ousting of long-serving chairman Mario Schimberni.

Even before the announcement that Raul Gardini, head of the Ferruzzi agri-industry group, would be taking over the chairmanship from Mr Schimberni, there was growing speculation about the future of Montedison's chemicals operations and its relations with state-owned Enichem. Indeed on the same day that the Ferruzzi group revealed the boardroom shake-up at the company in which it holds a controlling stake, Montedison's managing director Giorgio Porta gave evidence to a parliamentary commission in Rome.

After describing Montedison's activities, particularly over the past year, Mr Porta listed the sector's strategic requirements and his company's proposals for meeting them. "The Montedison group proposes the merger of the chemical activities of Montedison and ENI. This would establish a group able to acquire leadership or co-leadership positions in the production of numerous chemicals, as well as developing a high level of research with possible applications in pharmaceuticals, special materials, agri-industry and polymers," said Mr Porta. "We confirm the willingness of Montedison to acquire the entire share capital of Enichem," he added.

Alternatively, the managing director said, Montedison is prepared to consider a joint venture into which the state hydrocar*bons holding corporation ENI* would put Enichem's activities. The contribution from Montedison's side would consist of base petrochemicals, detergents, fibres, agricultural products and some specialities.

Mr Porta added that a fundamental condition for such a joint venture is that managerial responsibility for the business would be assigned to Montedison, with a gradual transfer of ENI's stake to the private sector company.

Franco Reviglio, ENI's chairman, believes that chemicals are a strategic sector for the state holding corporation and has sharply rejected Montedison's proposals. "We believe that the merger of the chemicals operations of Enichem and Montedison would have a strategic value for the Italian chemicals industry and would raise its competivity in global markets," explained Mr Porta.

That considerable scope exists for making strides in efficiency seems to find confirmation in the chemicals trade statistics.

Italy has a large and growing deficit in chemicals, which ranks second to food as the largest deficit item in the balance of payments. Last year the country paid L17,853bn for imported chemicals, while earning L11,677bn for its exports, giving a deficit of L6,176bn. Italy's imports of chemicals outweighed exports by L5,205bn in 1985 and L4,216bn in 1984. Five years ago the deficit amounted to L3,310bn.

The detailed statistics reveal weakness across the board. Only two products, chemical fibres *and electrodes*, show regular and significant trade surpluses. Some products are marginally in equilibrium, but most are in consistent and substantial deficit.

Trade balance for chemicals

L (bn)

	1982	1983	1984	1985	1986
TOTAL PRIMARY (excluding fibres)	−1884	−1999	−2150	−2708	−2907
of which: Organic base and intermediates	−855	−880	−916	−1436	−1324
Inorganics	−171	−278	−147	−188	−229
Plastics	−562	−589	−775	−824	−932
Fertilisers	−172	−155	−150	−90	−234
Chemical fibres	+229	+371	+234	+252	+197
Total secondary (excluding pharmaceuticals)	−1589	−1727	−2092	−2409	−2802
of which: Fine organics	−393	−461	−549	−679	−806
Cosmetics	−105	−94	−120	−150	−200
Industrial auxiliaries	−379	−498	−616	−690	−784
Organic colourants	−121	−204	−152	−143	−169
Inorganic pigments	−117	−129	−162	−171	−219
Sensitive material	−303	−334	−363	−454	−400
Electrodes	+84	+188	+172	+183	+182
Pharmaceuticals	−65	−160	−207	−340	−664
TOTAL PRIMARY AND SECONDARY	−3310	−3514	−4216	−5205	−6176

SOURCE: Federchimica

There are historical reasons for the weakness of the Italian chemicals industry. *It* started late compared to European and US competitors and was then saddled with the penalty of mistaken governmental industrial strategy. Heavy investment in large petrochemicals works failed to yield dividends. Insufficient demand, coupled to higher oil prices and financing costs, undermined expectations that boosting commodities production would provide an impulse for the sector as a whole.

Constant political intervention in the choice of sites for new plant was damaging. Regional policy issues rather than corporate economics determined the location of much of Italy's big chemicals works. Even with the benefits of soft loans, capital grants and help on labour costs, plants in southern Italy and the islands of Sicily and Sardinia have often proved poorly placed to serve the main markets.

A senior executive at Montedison noted that plants in southern Germany are much closer to Italy's principal centres of demand. When production costs are low, the cost of transport can become critical.

Regarding speciality and fine chemicals, experts say that these have been neglected in government plans for the sector. While small companies *have been* established and operated successfully, they have not been able to attain the appropriate size to support adequate research and development activity.

Failure to penetrate foreign markets has prevented small companies from growing and from generating the turnover required for R & D programmes. Managers of chemicals companies and other experts often refer to the need to raise the technological content of Italian chemicals production. However, collaboration between Italy's small and medium sized companies offers few real possibilities, given their diversity of products and the wary nature of the Italian businessman, especially when firms are family-owned. It is more likely that they will sell out to foreign competitors. Nevertheless, the way forward seems to be through specialisation, internationalisation and collaboration.

This was underlined by Montedison's managing director. "Operations in the chemicals sector must be dynamic, with continuous effort to supply special products and services to the most advanced industries, Mr Porta said. "Orientation towards the market is an important condition for growth because it allows links with sectors enjoying growth rates which are higher than in traditional areas," he added.

By upgrading its product portfolio Montedison has shifted its chemicals operations towards higher added value. Mr Porta claims that through its US Himont subsidiary, a controversial acquisition decision earlier this year, Montedison returns to a position of leadership in polymers. *Flexible response to* specific user needs is essential for success in this area.

Mr Porta points to *inadequate* expenditure on R & D as one of the main problems afflicting the industry. "Overall the Italian chemicals industry is not yet able to allocate sufficient resources to research to permit the development of innovative projects (new products and technologies) that can guarantee profitability and success in the future, he said." In absolute value, research expenditure in Italy's chemicals industry is one quarter that of Germany and one *half that of France,*" he told the parliamentary commission.

International comparisons highlight the secondary role of Italian chemicals on the global stage. Italy risks being assigned to a permanent bit-part as the big players seize increasingly larger slices of the worldwide action.

Mr Porta, remarking on the thrust towards globalisation, drew the attention of the Italian parliamentary commission to Bayer's foreign turnover, now 79 per cent against 68 per cent ten years ago. In contrast, 64 per cent of Montedison's sales last year were in Italy and a further 20 per cent in Europe. The company was trying to remedy this situation by acquiring Himont in the USA and Antibioticos, the Spanish ethical pharmaceuticals concern. Given Spain's recent adhesion to the European Community, its high growth rate and its traditional ties with Latin America, Montedison considers it a country of *strategic* importance.

In a joint venture between Montedison's energy subsidiary Selm and Shell, announced in September, the Italian operations of the French oil company Total were acquired. This is another example of Montedison's attempts to adopt a higher international profile.

The leading player on the other side of Italy's private/public sector divide has been even busier in moving around the global stage. Enichem has, however, been less active and tighter in acquisition spending. All except one of its numerous international operations during the past year have been research, production or marketing agreements.

Enichem's joint venture with Britain's Imperial Chemical Industries (ICI) got underway in October last year and has already shown profits, at least one year earlier than expected. Complex negotiations were necessary to set up the European Vinyls Corporation (EVC), the two parent companies retaining ownership of the production assets with the PVC product being made for marketing and selling by EVC.

Enichem and Montedison, Italy's only large national chemicals companies, seem to be getting ahead by cross-border acquisitions, joint ventures and cooperation. Perhaps this should be seen as a sign for a merger of the two companies, a marriage between state and private sector. However, according to some outside observers, scope for benefits from rationalisation is limited. Moreover a single merged company would still be facing the fundamental weakness of not being international.

In any case, the chemicals industry has always been highly politicised. Indeed the state held the largest single stake in Montedison until five years ago. Even now the state-owned investment bank Mediobanca keeps a 6 per cent shareholding.

Launching an Enichem-Montedison venture appears fraught with difficulties, unless the politicians can agree on how such spoils of power should be divided.

David Lane

Steel Industry

Finsider sets out its recovery plan

THE EUROPEAN Community *has already* been waiting a long time for the Italian steel industry to get its act together, but it will still have to wait until the turn of the year before the precise details of yet another recovery plan are available.

But there is no doubting what the industry, or at least that substantial part of it which is publicly owned, wants of the European Community. Finsider is looking to be a special case in whatever policy the Community finally adopts in its aim to reduce capacity further and the eventual lifting of production quotas.

Broadly speaking the group, owned by the IRI state holding company, wants another three years in which to re-organise its structure, rationalise its production and to work out new relationships with the private sector.

As long as the Community remains in the business of trying to organise the closure of capacity, it appears to have little option but to accede to Italian requests. But it will need to give the Finsider recovery plan the closest possible scrutiny and to arrange an effective monitoring system.

Notwithstanding the progress made by Finsider towards slimming down capacity and employment over the last seven years, strong and consistent pressure from the outside has been a missing ingredient.

The company has been excessively slow to respond to unforeseen changes in the market, partly because its ability has been severely constrained by political and trade union opposition.

Managing the decline of a pub*lic sector business is difficult* anywhere in Europe without the necessary political backing. While Finsider may eventually win government approval for its new recovery plan, it cannot count on this being consistent nor necessarily effective in the face of organised trade union and political opposition at the local level.

This is one reason why a closer Community involvement in the application of the plan could be crucial to ensuring its success. It is also in the Community's interest - from the point of view of implementing an EC-wide steel plan - to take a tougher line to ensure that Italy is sticking to the terms of any agreement. The past is coloured by too many doubts on this front.

The company has been almost traumatised by the events of this year when a bad financial situation turned even worse in the face of market difficulties and Mr Romano Prodi, the IRI chairman, decided to change the top management.

Political battles delayed even *this initiative for several months* with the result that Mr Mario Lupo and Mr Giovanni Gambardella were not able to start work on a new corporate plan until mid July.

They had inherited a situation of acute financial haemorrhage reflected in a L980bn loss for the first half of the year. Production has continued to fall in the face of stagnating demand and rising imports.The embargo on communication with the outside world was partially lifted towards the end of October when the broad lines of the Lupo-Gambardella recovery plan was put to the unions. In the succeeding days protest stoppages were organised at several Finsider plants.

The new plan differs in several respects from its two predecessors produced earlier this year by the former management, not least in calling for a cut of 25,000 jobs. The previously estimated requirement was for a loss of *18,000.*

The Finsider management's document warns bluntly that the company's position is "extremely critical". It points out that while the EC's other steel industry's are producing operating profits of around 8 per cent of sales, Finsider is managing only 2 per cent. At the same time, it is burdened with debt and amortisa*tion charges amounting to 17 per* cent of sales compared to British Steel's 5 per cent, 6 to 8 per cent among West German companies and 10 per cent in France.

This means that in addition to industrial restructuring, Finsider needs "a parallel and determined financial and capital restructuring". To put itself on a par with its European competitors, Finsider needs around *L6,000bn* for financial restructuring, says the document.

The guiding principles of the plan, as set out in the document, are fourfold.

1. To concentrate on products and markets which offer the best prospects and to quit those which cannot be profitable for a public steel industry.

2. To look for synergies with the private sector by means of joint ventures or sale of plant and equipment and for international alliances.

3. To encourage horizontal synergies within the group, affecting both production and management and management services.

4. To bring efficiency and productivity up to the levels of the strongest European competitors through plant rationalisation.

In broad terms, the focus next *year would be on reducing* costs, changing structure and optimising management. In 1989 commercial policies would be developed, particularly through appropriate national and international alliances. *By 1990,* the companies accounts should be in broad balance.

In outlining the approach for individual sectors, the new Finsider management says that the guiding logic will be a "logic of the market, substantially different from purely and simply maintaining production volumes."

For the unwelded tubes sector, the strategy will be to seek "commercial, productive and eventually corporate integration with international partners." A primary objective will be to compensate for a reduction in nonprofitable exports by increasing sales in Italy and the Community as a whole. Welded tubes production, meanwhile, will be *concentrated on the plants at* Torre Annunziata near Naples and at Piombino, near Livorno.

In dealing with long products - whose production in Italy is dominated by the private sector - the new Finsider management has rejected a full privatisation strategy. It says that each approach will be different for merchant steels, special steels and construction steels.

It hints that two plants specialising in the first category would be right for cession to the privateers, while construction steels would be concentrated at *Piombino.* Ten plants are currently operating in the long products area.

Stainless steel production would continue being developed at Terni in Umbria while magnetic steel production needs to be "reviewed" so as to improve the product range and improve costs. Drop forging and railway rolling stock production should be rationalised through joint ventures or privatisation.

The plan aims for a significant cutback in exports of flat rolled products, Finsider's principal business is based in the South at Taranto with major units also at Bagnoli in Naples and Campi at Genoa.

But the Finsider management remains Delphic on the subject of Bagnoli with its 3,500 employees. The effects of cutting back production volumes will be equally shared between Bagnoli and Campi, they say, but their future will really depend on finding market niches which are appropriate for short production runs.

Finally, the outline plan also makes it clear that Finsider will stay in heavy plant engineering, although, again, some activities still to be defined could be ceded to the private sector.

John Wyles

Finsider

Employment changes by product

	End 1980	End 1986	Percentage
Flat products	56,533	37,011	-34.5
Tubes	13,420	9,490	-29.3
Stainless and drop forging	13,816	10,006	-27.6
Long special	23,528	13,586	-42.3
Heavy plant	12,827	6,910	-46.1
Non-steel	7,915	5,297	-33.1
Research	505	455	-9.9
Finance	309	290	-6.1

Backward public services act as a brake to efficiency

The case for restructuring

ITALIAN industrialists are increasingly convinced that Italy's inefficient public services represent a serious impediment to further economic development.

In recent years Italian industry has undergone a significant restructuring which, when combined with the use of new technologies, has given a substantial boost to productivity. In contrast, the backwardness of those *services on which companies* anywhere depend in order to get their products to market, is acting as a brake on overall competitiveness.

In addition, analysts say, the poor performance of the services has a multiplier effect in that it almost certainly slows industry's use of newer technologies that, again, could boost competitiveness on international markets.

"Production costs involve far more than raw materials and must be a big factor in the cost of labour, money and services as well", says Mr Luigi Lucchini, *President of Confindustria,* the national association of Italian manufacturers.

According to Mr Lucchini, Italian manufacturers are at a disadvantage in all three. But studies show that at present the direct and indirect cost to Italian businesses of public services amounts to an average eight per cent of sales, compared to the *one to three per cent in other* European countries.

Economist Paolo Savona, chairman of the Credito Industriale Sardo bank, says that today the Italian Government's major concern ought to be the state's failure to provide the country with efficient public services. The problems created for industry by the undisputed inefficiency of public services is illustrated by two recent studies carried out by Confindustria.

One, regarding Italian postal service, demonstrates that an ordinary letter can easily take up to ten days between Rome and Treviso or Modena in the Italian *north, and as long as 18 days* between these cities and Naples. The study also revealed that overall productivity of the Italian postal service has diminished by eight per cent over the last decade while in West Germany it has increased by 24 per cent over the same period.

A similar situation exists with regard to freight shipment by the Italian railways. Over the last 15 years, a study revealed, the speed of delivery on the major rail lines has dropped by an average of two hours.

In addition, rail shipping charges are so uncompetitive that by 1983, 72 per cent of domestic freight shipments in Italy were by road compared to only nine per cent by rail and 14 per cent by ship. The comparative figures for 1970, when gasoline products were considerably cheaper were 49 per cent (road), 17 per cent (rail) and 23 perent (sea).

According to a recent study, compared with Great Britain, Germany and France, Italy is currently at the bottom of the table for the average number of tons transported per kilometre of track.

Comparisons of productivity with other countries are equally distressing. For if in Italy there are 100 employees per kilometre of track, the equivalent figures are 77 for Germany and 52 for France.

According to another study that uses 1970 as a base year, while the efficiency of the U.S. and Japanese systems of transport and telecommunications *have increased steadily over the* last 15 years, in Italy they have declined. The only exception was a moderate increase in telecommunications efficiency in 1982, but which in 1984 showed no signs of further improvement.

The situation with regard to Italian seaports is even more drastic. According to Confindustria, the status of Italian ports "is inadequate for the economic stature that Italy has reached". In fact, a study carried out by Montedison, the giant chemical company, showed that the charges for container movements from Italian ports to the US, the Red Sea and the Arabian Gulf, India and Pakistan, South Africa and Eastern Africa were consistently higher than from Northern European ports.

Not surprisingly, despite the increase in world trade, sea freight traffic in and out of Italy has not grown since 1980.

A study of European port development between 1969 and 1980 is an eye-opener. During that period, five major European ports - Hamburg, Amsterdam, Anvers, Bremen and Rotterdam - both reduced the number of their employees (by percentages ranging from 14 to 56) and increased the amount of freight handled (by percentages ranging from 59 to 180).

Taken together, Italian ports as a whole in the same period registered an increase of 55 per cent in the number of workers and an increase of freight of only 25 per cent.

The situation is particularly serious because of the importance of *sea freight for* Italian industry. Ninety per cent of imported raw materials and semi-finished products arrive by sea and 70 per cent of exported Italian goods are also shipped through the country's port system.

One problem, said a Confindustria official, is that there is no unified system of management. Two thirds of Italy's 70 freight ports are under regional control, while the others are under state management. A plethora of agencies - public and private - are involved in daily management and operation.

Although the 'Capitanerie' of the ports must deal directly with the Merchant Marine Ministry, daily contacts are also needed *with other ministries (Foreign* Trade, Treasury, Foreign Affairs, Industry etc).

Furthermore, a rigid system of labour relations keeps costs higher than in many foreign countries. Although an Italian longshoreman generally works only ten days or so a month, a system of a guaranteed minimum salary gives him an average annual take-home pay of L34.9m ($15,849), that is substantially higher than that received by the average industrial worker. And the average total cost per longshoreman to the community is L51.4m a year.

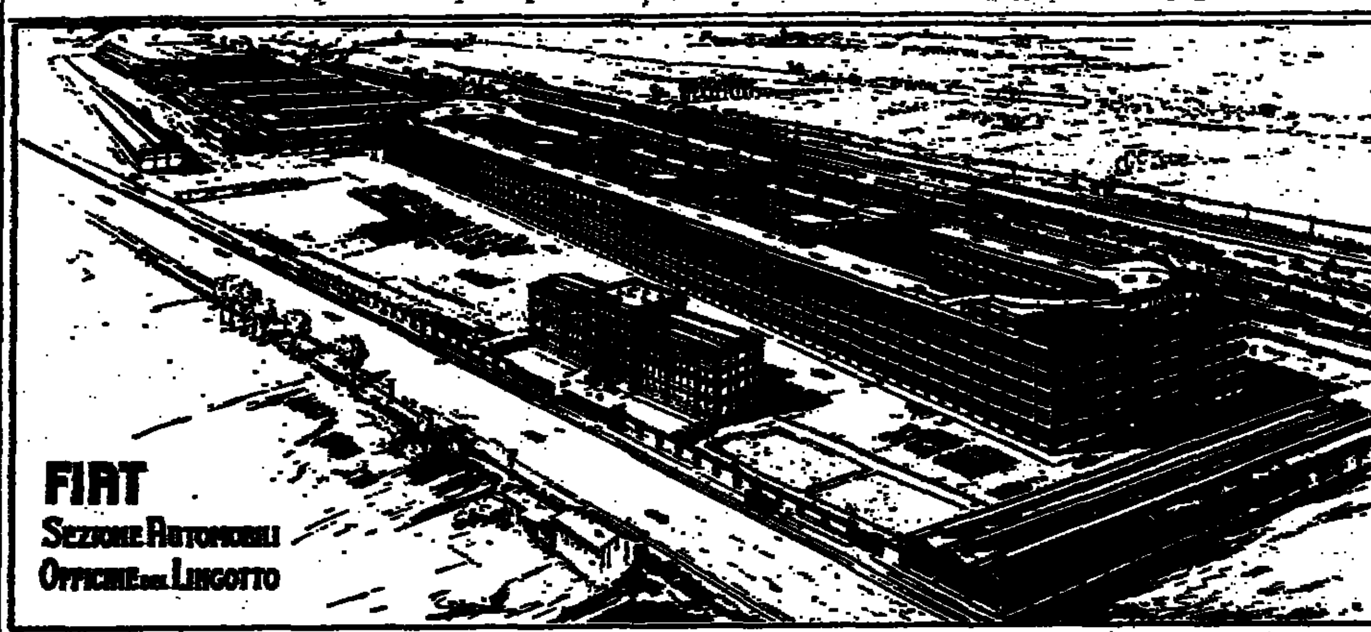
To cover these costs freight charges are increased with the result that traffic has been declining. The state is then asked to step in with emergency financial subsidies that weigh on the overall state deficit.

+The Italian telephone system is also notoriously inefficient, with a high percentage of calls made ending in failed connections, disconnections, or severe interference. Waiting time for new phone installations can also be a drain on resources.

A top advertising firm in Rome recently had to pay rent on two sets of offices for a period of six months while waiting for phones to be installed at its new address. The manager of a small company that recently requested an electronic mail computer link up was delighted when he received his 'password' after only two months. His delight, however, was short-lived. For it took four more months until the link-up was made operative.

Mr Lucchini says "The situation needs drastic measures. We industrialists are operating under such constraints that our ability to reorganise and improve productivity in recent years must really be viewed as something akin to a miracle".

Sari Gilbert



Exciting new uses are planned for Fiat's historic Lingotto plant in Turin

Sari Gilbert looks at hi-tech plans for Turin and Milan

Turin's meeting ground

MORE THAN any other Italian city, Turin is a company town. Consequently, it would be difficult to find a Torinese unable to identify the Lingotto, the massive five-storey factory complex that at its inauguration in 1923 - attended by King Victor Emmanuel III - represented the Fiat automobile company's giant stride into the industrial future.

In coming decades, however, the Lingotto, with its honeycomb windows and vast interior spaces, will have a new identity. *In mid-November* the Turin city council approved a project by the internationally-known architect Renzo Piano to transform the factory and adjacent areas into what Fiat officials terms "a multi-functional centre" with a high-tech orientation.

With its roof-top, test-drive track and twin indoor access ramps, the factory had long been *an urban landmark, certainly* part of the collective conscience since Fiat 501s, Berlinas and Torpedos started rolling of the new assembly lines in the early Twenties.

So when in 1982 company officials decided to shift production of the Lancia Delta and Fiat Campagnola jeep to a newer, robotised factory, it appeared *obvious* that a *new* function had to be found for an area covering 200,000 square metres of ground and for buildings with a 1.7m cubic metre capacity.

The first solution was to utilise part *of the factory for the bi-an*nual Turin Auto Show and for other exhibits, that because of new, stricter fire regulations, couldn't fit into the city's exhibition hall.

But in *1984 Fiat decided* to ask for outside help. Twenty reknowned architects from six countries were asked to consider the problem from the point of view of urban transformation, to use their imaginations as to possible uses for this now empty structure.

In 1986, after viewing the various projects, the city government commissioned its own feasibility study. The end result was the Piano plan for a complex that will stretch out over both the Fiat property and an adjacent area of another 100,000 square metres that belonged to the state-railways. Required public spaces, mostly parks and parking areas - outdoor and underground - will bring total ground space up to 510,000 square metres.

According to the blueprints, the huge, ground-floor former bodyworks factory with its huge vertical girders will be turned into a vast exhibition hall, while the five-storey 'officine' or machine-shops building next door, will house a hotel and a 3000-seat congress centre.

In addition, there will be a research and development centre, or *centro innovazioni* for advanced industry (with Fiat Aviazione and IBM already claiming spaces, a university complex that is expected to house the mathematics, physics, and chemistry departments of Turin University, and an 'incubator' facility for applied research by small, high-tech, experimental companies.

According to Fiat, high technology represents the single, common theme of the project. "But the real scope is to find a meeting ground for industry and scholarship that will allow Turin to operate as a melting pot for the future".

The test-drive roof with its tobogganer's curves, which like the ramps have been given national monument status, will be opened to the public, and will house both a heliport and a restaurant. Ground-floor spaces for stores and other commercial outlets will be linked by open porticoes and flowering courtyards.

Fiat says the total cost of the Lingotto project has been estimated at L400bn *over a period of six years, with two thirds of the* cost to be borne by private industry. *Fiat,* which reportedly is to have six representatives on a nine-member board, has committed itself to carrying at least half of this portion. The rest is to come from public monies, with the city government committed to paying out at least ten per cent of the total and hopeful that it will get other agencies to provide the rest.

"It's a project of major significance, a breakthrough for Italy in joint ventures by the public and private sectors," says Mr *Piergiorgio Re, Turin's Commis*sioner of Urban Planning, a representative of the small free-enterprise oriented Liberal Party.

Mr Re describes the project, which on paper includes the *wholesale food markets and cus*toms sheds behind the factory - bringing the total area involved to 800,000 square metres - represents "a vast and nearly unprecedented undertaking in urban development within the context of a city that already exists".

For Fiat the project will obviously have some economic resonance. But with some of the planned operations - university, public spaces and congress centre - not particularly profitable for the builder, greater importance has been given to image, and even to sentiment.

As one *Fiat* official put it "The fact is that no one here was able to conceive of something so important to our history and to the city's history simply being demolished."

Sari Gilbert

Pirelli's Techno City

A FEW YEARS ago changes in production and corporate strategy were threatening to turn the Pirelli group's giant Bicocca factory-grounds *into* an industrial ghost town. Instead, this sprawling area of heavy industrial buildings, cooling towers, paved roads and railway sidings - some 714,000 square metres in all - is to be transformed into an 'Integrated Techno City' or 'technological pole' that Pirelli officials believe will be the largest of its type in Western Europe.

Today, Milan is no longer Italy's industrial capital, a primacy now claimed by Turin and the surrounding Piedmont region. But the giant Pirelli group still casts a long *shadow* there. Although now a worldwide operation, about half of the 115-year old tyre and cable manufacturer's 44 Italian production facilities are located still in Milan or in its immediate surroundings.

The Bicocca Project, a private-public joint enterprise which got under way in 1985 and should enter its final planning stages early in the new year, is destined to prolong the Pirelli influence. At the same time, the project's plan to bring industrial, academic and scientific brainpower into proximity, is expected to give a much needed-boost to the neglected research and development sector.

"Ours is a country of great creativity, but in some sectors of technology we nevertheless find ourselves totally dependent on others", said Mr Giovanni Nassi, the Pirelli official who heads the Bicocca project. "The world is being transformed and yet Italy, and Europe as a whole, have remained behind," he added.

The idea behind the Bicocca project is to rectify this situation by the year 2000. Parts of Milan's *Polytechnic University* are expected to be transferred to the new site. And there are hopes that other Italian state research bodies like the CNR or ENEA will follow. The first installation *of laboratories will* be made by COFRIEL, a consortium of private industry that so far includes Pirelli, Telettra, Italtel, Honeywell, IBM, and Assolombardo (the Lombardy Manufacturers' Association. The total cost of the entire Bicocca project, to be spent over the next 12 years, is expected to amount to L1,000bn.

Situated on the northern outskirts of the city, Bicocca - which takes its name from the site's elegant 15th century country villa - was purchased by Pirelli in 1907 and soon became the company's central industrial complex.

Subsequently, however, Pirelli like many Italian companies, began decentralising, with much of Italian production shifted to smaller factories in Central and Southern Italy. While both tyres and cables are still produced here, the chimes of obsolescence had sounded loud enough to make abandonment of the area appear increasingly likely. Pirelli managers were stimulated into action.

The first step was an agreement in early 1985 with the unions that cleared the way for a new tyre factory that has been built at nearby Bollate and should be ready sometime *next* year. The second was a preliminary agreement with municipal, provincial and regional authorities regarding target uses for the area. And finally, in September of that year, Pirelli launched an international competition, inviting 20 architects around the world to develop the theme of the future architectural and urban layout.

Three winners were selected by an international jury in March, 1986. And following the preliminary approval last May by the Milan City Council of a necessary amendment or 'variante' of the city's master zoning plan, the winners - Vittorio Gregotti, Gino Valle, and the Roberto Gabetti-Aimaro Isola team - were asked to prepare their final projects for a February 15, 1988 deadline.

The 'variante', which hopefully will get final approval by February, sets the *guidelines* for the project, establishing an optimum mix of space utilisation for industry, research, administration and habitation. For example, because of the authorities' reluctance to see Milan become totally services-oriented, Pirelli, which will keep about half the area for itself, has had to promise that no fewer than 130,000 square metres will be devoted to cable production.

In other words, the 'variante' will lay out the basic standards to which the winning proposal - to be chosen by Pirelli - will have to adhere. Another year will be needed to devise the PIO, or "plan for operational intervention" which will establish the basic engineering standards. After which construction can begin.

"If we get the PIO done by June, 1989, then we'll be in great shape,"said Dr. Nassi. He believes that the major problems so far have been the "Byzantine procedures" of Italian public administration. But he is nevertheless hopeful that by 1992 the Bicocca will be "a functioning reality."

Sari Gilbert

Motor industry

Fiat in top gear

FIAT, the diversified industrial giant which is virtually synonymous with Italy's motor industry, has never been stronger.

The Turin-based leviathan, which employed 230,000 at last count, is at the peak of a prosperous period of financial and industrial consolidation and expansion.

Its success since 1980 in coming to terms with a restive labour force, followed by massive investments and a thorough restructuring of marketing resources which produced a return to profit in 1983, is widely accepted as an industrial watershed for Italy.

The pace of profits growth quickly gained momentum and the group closed out 1986 with net earnings in excess of L2,000bn (US$1.67bn), a 63 per *cent gain over the previous year.*

Moreover, 1986 was also the year that Fiat was able at the last-minute to snatch a significant victory from its competitor Ford of the US, in the two carmakers' battle to win control of the troubled Alfa Romeo group.

As a result, Fiat has extended itself far more widely in the luxury end of the auto market.

Fiat now produces more than 60 per cent of the cars sold in Italy, a market share which is not even closely approached in any other western industrialised nation.

Moreover, the Alfa deal elevated it to the leading position among European car producers, and as of mid-1987 it could boast a 15 per cent share of the 6.4m cars sold on the Continent.

It was also able to escort Nissan of Japan out of Arna, its unsuccessful joint venture with Alfa Romeo. Japanese producers are already prevented *from* selling more than a few thousand cars a year in Italy under the provisions of an immediate post-war accord.

Unfortunately for Fiat, the terms of the Alfa deal did not escape the notice of the European Community Commission, which has launched a probe to determine whether competition rules have been breached.

The brisk pace of domestic consumer demand helped push total Italian automobile output to a record 1.4 m units after the first eight months, a 9.6 per cent advance over the same period a year earlier.

The sale of commercial vehicles, meanwhile, rose by 19 per cent to 77,737 units during the first eight months.

But now, several factors should serve to moderate the expectations of Italy's motor industry.

Most analysts expect a US-led recession will not be without a wider significance for European producers as well.

In Italy, the Rome governments increase by 4 per cent in VAT (to 22 per cent), bitterly attacked by Fiat and others, is expected to cool demand.

None the less, Fiat still expects to increase net profits to exceed L2,700bn on sales of L37,000bn ($29bn).

Elsewhere in the industry, the US automaker Chrysler clinched a deal last May to take control of the prestigious Lamborghini sports car maker - it already held 15.6 per cent of Maserati - in the latest in a series of Detroit attempts to cash in on the image of Italian performance.

Cadillac, meanwhile, has started US sales of its Pininfarina-designed Allante convertible.

David Brown

Corporate Finance

Laws of the market start to pinch

'BLACK MONDAY' on Milan's stock market dashed the hopes of zero-cost finance for companies which were looking for a flow of fresh funds through rights issues or quotation. October 19 gave the knock-down blow to a market which, in contrast to London and New York, had been rocking unsteadily since reaching an all-time high in August 1986.

The performance of the MIB share price index shows how unfavourable conditions have been for raising money in 1987. Starting the year at 1000, it followed a downward trend until September. A promising revival which took the index from 813 on 15 September to 923 on 15 October was then snuffed out by the crash. Three weeks after 'Black Monday' the MIB index was floored at 661.

All the main shares suffered badly. Ordinary shares in the Fiat group, Italy's largest private sector corporation, started the year at L14,370. When the market closed on 20 November Fiat's shares were priced at L8350, a drop of nearly 42 per cent. Investors in Montedison, the large Milan chemicals corporation, saw the value of their shares fall equally sharply. On January 2 the price stood at L2880. They could be bought for L1480 on November 20.

Shares in Olivetti, the office automation company, halved in value, sliding from L13,500 to L7,200. With a market which was lacklustre until October, and was then knocked back by the crash, little scope was offered for raising capital. Indeed during the first nine months of this year there were only 26 operations which realised L4,861bn. This was in sharp contrast to 1986 when the 99 operations on the Milan market allowed the companies concerned to increase their share capital by L14,488bn.

Montedison, a market winner last year, ranks as 'Black Monday's' most eminent victim. The company had planned a L1,028bn rights issue at a price of L1,900 per share, with one third being placed on Wall Street. But market conditions prevented the formation of an underwriting consortium. The issue was postponed at the beginning of November until "the company can propose an operation which is compatible with the market".

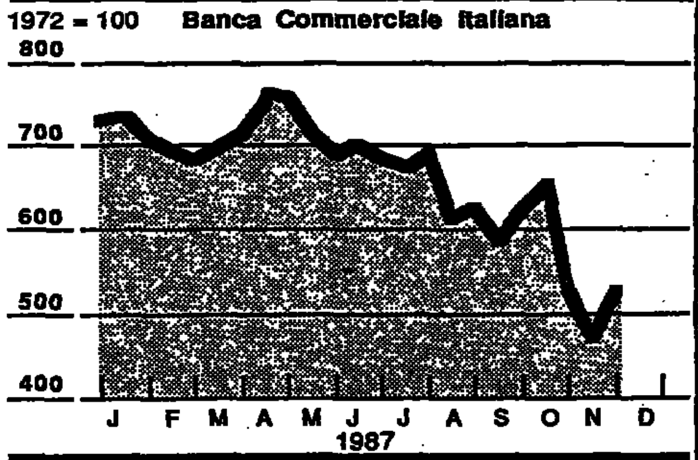
This was a far cry from Montedison's position at the end of May. When chairman Mario Schimberni addressed the shareholders he reported "For many years Montedison was troubled by a heavy debt burden. Finally in 1986 the company turned the corner. The issue of new equity for both the parent company and Montedison subsidiaries brought a net inflow of L3,448bn. This in turn meant that total shareholders' funds amounted to L4,842bn at the end of 1986, compared to total debt of L4240bn."

Three major operations during the current year lay behind November's debacle and contributed to the removal of Mario Schimberni from the chairmanship. The acquisition of the Spanish pharmaceuticals company Antibioticos and Montedison's buy-out of its partner in the US polypropylene maker Himont, together with consolidation of the stake in the Italian insurance company La Fondiaria, caused a substantial rise in Montedison's indebtedness.

After acquisitions of about L3,500bn during the course of 1987, Montedison looks set to end the year with borrowings of L7,700bn, even when positive cash flow of L1,000bn, asset disposals of L500bn and bond issues of L300bn are taken into account. Though this year's operating margin should be 7.2 per cent on turnover, against last year's 5.8 per cent, and only 10 per cent of borrowings are short term, Montedison's financial structure is viewed with concern.

Like Montedison, Fiat has also turned to the market to get fresh risk capital, but not during the current year. The most recent large operation, which added L1,117bn of paid-in capital to shareholders' equity, was in summer 1986. Fiat had moved early to take advantage of favourable market sentiment with a large issue in 1984. These increases in share capital, coupled to substantial positive cash flow, cut Fiat's net indebtedness from L2,400bn at year-end 1985 to L700bn at the end of last year.

Milan bourse



In spite of L2,000bn of payments for the Alfa Romeo and Snia acquisitions at the start of this year, Fiat's finance manager Davide Croff expects that positive cash flow of more than L1,700bn in 1987 will leave the group with net indebtedness of less than L1,000bn at the end of December. Mr Croff said that favourable market conditions and positive cash flow had happily coincided with the need for significant investment financing within the group.

Fiat has spent about L3,000bn on investment in product and production systems during the year. Reorganisation of newly-acquired Alfa Romeo and heavy investment in the Iveco truck and bus company have made heavy demands on resources. Mr Croff said, however, that the car company, Fiat Auto has made the biggest call with its requirements for launching the new mid-range Tipo model. About 40 per cent of ordinary investment was spent on product development while a further 40 per cent was channelled into building and improving production systems.

In addition to ordinary investment, Fiat has also spent heavily on research and development, between L900bn and L1,000bn in the current year. This will be charged directly to 1987's profit and loss account.

Fiat's net indebtedness masks a more complex financial situation, explained Mr Croff. Some of the group's subsidiaries are in surplus while others are in deficit. The headquarters' finance division in Turin's Corso Marconi operates as a clearing house for flows of funds within the group, thereby ensuring the optimum allocation of resources. The group maintains a significant long-term debt position (L3,472bn in the consolidated accounts at 31 December 1986) for precautionary and strategic reasons.

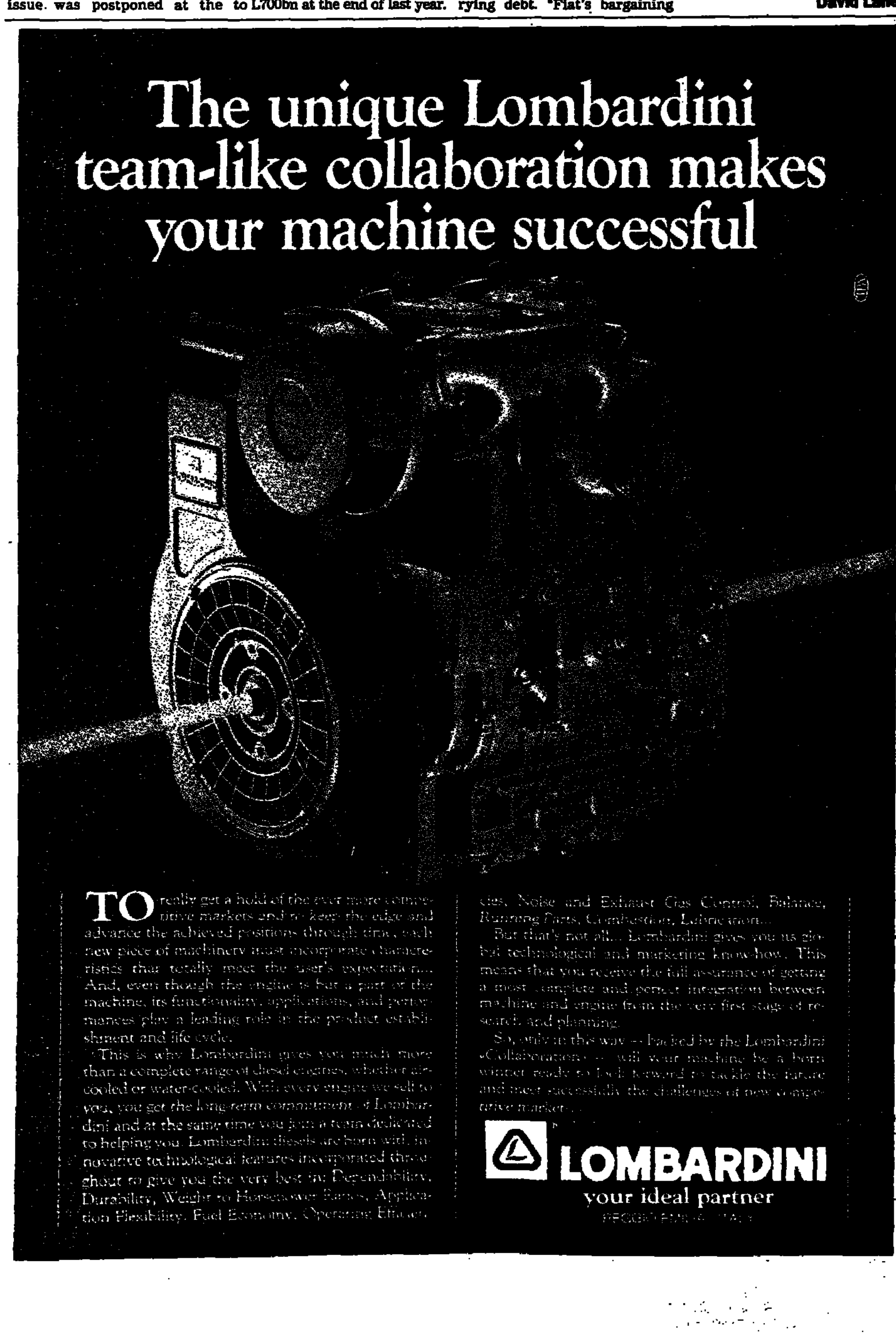
He noted that there are also sound economic reasons for carrying debt. "Fiat's bargaining power allows us to borrow at 30 to 50 basis points under LIBOR. This means that the cost of debt is less than the profits which can be made from lending the borrowed funds," said Mr Croff. He emphasised that though the group engages in arbitrage operations, it is non-speculative. "It is a matter of correct management of financial resources," he added. There has been much talk in Italian banking and business circles about the tasso Fiat, the advantageously low interest rate which is applied to Fiat's borrowings from Italian banks. Mr Croff admitted that it exists but said that other large corporations are equally favoured.

"The laws of the market apply. It is a question of quality of credit and high volume of business," he said, referring to the group's strong bargaining position.

The laws of the market are also applying to several engineering companies which had hoped to obtain listings on the Milan board. After the crash, prospects for quotation have receded for publicly-owned companies SIV, Breda Costruzioni, Breda Ferroviaria, Finmeccanica, Alfa Avio and Snam. Listing of shares of private-sector companies like Gruppo Finanziario Tessile and Intermarine are unlikely until the market recovers from its present fragility.

Fortunately many companies in the engineering sectors have been able to reorganise and improve their financial positions during the good conditions of the past three to four years. Levels of short term bank borrowing have generally been reduced. Moreover the cost of money has come down and the prospects are for interest rate stability. "Before October 19 we were expecting rates to rise. Now we forecast a moderate recession and a reduction in interest rates," said Mr Croff.

David Lane



Profile: Luigi Lucchini, chairman of Confindustria

A vanishing breed

WHEN ITALY'S industrialists' confederation Confindustria meets next May it will face the task of electing a successor to its current chairman. Mr Luigi Lucchini will have completed four years in the job and will not be eligible for another two-year term. Mr Lucchini will be remembered for having brought a robust and combative style to the chairmanship.

After Mr Gianni Agnelli's subtle leadership ofConfindustria during the late 1970s and the thoughtful approach of his immediate predecessor Mr Vittorio Merloni, Mr Lucchini has been more direct. He is a man with a mission who clearly believes that a cast iron fist in a gauntlet of steel gets results.

"Every chairman of Confindustria must be in tune with conditions prevailing in his period of office," said Mr Lucchini. The mid-1980s have seen the frontline of trade union advance pushed back. Setting an example at his own Brescia company, Mr Lucchini was in the vanguard of the Italian industrialists' counter-offensive against labour.

More than ten years ago he provided a demonstration of how to tackle confrontation at local level when he faced down workers at his Brescia steel plants during a six month strike. "I am known as a tough character, a man of steel," remarked Mr Lucchini.

He decribed the 1970s as an ugly and destructive period, caused by trade union arrogance, a spineless response from politicians and employers and by deleterious compromise. "In battles with the trade unions I am pitiless," he said, noting that trade unionism needs a counter-force. "Workers must learn to respect the employers' demands," Mr Lucchini added.

Now approaching 69, Confindustria's chairman admitted that he is a member of a vanishing breed of industrialist. Leader among the Brescian steelmakers, Mr Lucchini built a family empire and a substantial personal fortune in the aftermath of the Second World War.

His father was an artisan steelmaker with a small forge. Though he trained to be a school teacher, iron rather than chalk was in Luigi Lucchini's blood. His teaching skills have served for providing Italy's trade unions with a lesson in industrial relations. Post-war conditions favoured the switch from the classroom to the steel mill.

"Italy was famished for the iron and steel required for reconstruction," he said. "Luck was on my side. There was no need for marketing what we made, because production sold itself. Finance was also easy, as customers, desperate for steel, paid immediately in cash," he explained.

Output from the steel mills of Brescia underpinned the rebuilding of the Italian economy and was central to the 'miracle' of the 1950s and 1960s. During these boom years Mr Lucchini laid the foundations of today's business.

Last year Lucchini Siderurgica declared profits of L10bn (£4.54m) on sales of L265bn. But success has not loosened Mr Lucchini's local ties. The company operates a rolling mill at Casto, on the site of his father's forge. Mr Lucchini's birthplace is about 40 kilometres from Brescia. Closer to the provincial capital, there is a plant at Sarezzo in the Val Trompia, an area with a history for iron and arms making dating back to the Venetian Republic.

In Brescia itself the wholly-owned subsidiary Bisider makes a wide range of commercial steel, returning profits of L1bn on turnover of L89bn in 1986. However Mr Lucchini is unique among the Brescian steelmakers who built up their companies in the first two decades after the war. By following a policy of diversification and forming alliances with the corporate figures and institutions of Italy's financial and industrial establishment he became something more than a provincial self-made man.

His election to the chairmanship of Confindustria in 1984 confirmed his inclusion at the highest level of Italy's industrial elite. It is a role and recognition of which he is proud. But Mr Lucchini emphasises that he has not forgotten his roots. "Small and medium-sized companies are the pillars of the Italian economy. More than anything I have been their representative at Confindustria," he said.

Looking after the interests of Italy's industrialists has been a full-time job. It has kept Mr Lucchini heavily involved in Rome, dealing with fellow industrialists, politicians and the trade unions. Back in Brescia the task of managing Lucchini Siderurgica has been entrusted to his son Giuseppe, who is deputy chairman and joint managing director of the company. Mr Lucchini considers that he has an excellent deputy.

"My son's intelligence is certainly not less than mine," he said. He recalled Giuseppe's kidnapping 13 years ago, and his son's cool behaviour at that time. In dealing directly with the kidnappers, Luigi Lucchini also demonstrated his own strong nerves and shrewd bargaining capacity. He negotiated the ransom and personally delivered the money, ensuring his son's release before informing the police.

Mr Lucchini places much emphasis on his independence. He claims to be a political person, but without political colours. "I believe that it is important to avoid being in debt to any party," he said. "The single girl is courted, but once she marries she attracts a different kind of attention," he remarked. But ardently anti- communist, Luigi Lucchini lets it be known that a communist government in Rome would probably cause him to emigrate. However, he considers that the power of the Roman Catholic church and the individualistic character of Italians will probably ensure that the need to leave the country will not arise.

While rugged individualism, coupled to luck and enormous dedication to work, allowed Mr Lucchini to build a sizeable corporate empire, he thinks that a similar achievement would now be almost impossible. Business has become much more complex.


Luigi Lucchini: cast iron fist in gauntlet of steel

According to Mr Lucchini, financial wizardry rather than technical talent provides the key to success today. Luigi Lucchini's desire for independence continues to be one of his prominent characteristics. The business which he has created is still wholly owned by himself and his family.

Sense of ownership is indispensable for Mr Lucchini. Full of bounce and verve, Mr Lucchini does not intend to pension himself off when he stands down from Confindustria's chairmanship. He admits to having no hobbies or interests outside his work. During this summer's break from responsibilities at the industrialists' confederation he used his time to design the layout and calculate the costs and profitability of a new line at one of his steel mills.

He believes that there are still new peaks to be climbed and further milestones to be passed.

"He who stops is lost. It is important to have the physical toughness to hold on," remarked Mr Lucchini. Notwithstanding his age, he gives the appearance of having the strength of body and mind to restart at his father's forge, if that were necessary.

David Lane

Industrial Relations

Union leadership diffused

"IT IS A CRY of agony," said Mr Felice Mortillaro, director general of Federmeccanica, the organisation representing Italian private engineering companies. He was referring to the four hour general strike of a fortnight ago, called by the trade unions to protest at the contents of the Government's 1988 budget proposal.

According to the unions, the response among industrial companies of about 85 per cent gives the lie to Mr Mortillaro's innuendo that they are suffering their death throes. In reality, a substantially lower proportion of industrial workers were involved, although with no one doing a proper job aggregating the numbers, it is impossible to know how many.

To a considerable extent it suits both employers and unions to keep their conflicting judgements of the strike protected from the actual truth. Employers would not want to alter their (broadly accurate) view of the status quo, which is of a union movemenent much reduced in power and influence and short on ideas and strategy.

If the 'fiction' of a successful general strike consolidates or strengthens the unions' position a little, then that is probably preferable to the alternative.

This has been on graphic display in the public sector over recent months. In some cases, such as the airport workers, the unions have lacked the authority to impose their own schedule of industrial action and have had their instructions ignored by a more militant rank and file. In others, their authority has been completely rejected by rank and file committees agitating for better conditions than those which have been negotiated.

The net result has been an image of weakness and anarchy. The phenomenon which has grabbed the most headlines is that of the so-called Cobas (comitati di base), the rank and file committees set up in many schools two years ago whose sectoral name has become the generic term for those committees which have emerged elsewhere.

Until now, the Cobas phenomenon is far more limited than much press reporting would suggest. It has some strength in some schools in certain parts of the country such as Rome, Naples, Bari and Florence. Outside education, the only analogue of any consequence is on the railways among train drivers, guards and some station masters. This latter group has enough power to have severely disrupted train services on many occasions this year.

The Cobas committees are narrowly instrumental in their objectives which are mainly to secure pay rates which the categories involved believe would more truly reflect their skills and hierarchical position. The train drivers complain that their differentials of the last 15 years have all been eroded while their work schedules are more onerous than they once were. Many, but not all of the school teachers want their pay more closely aligned to that of university teachers.

Some Cobas members have kept their unions cards and others have not. Their activities should not be confused with those of the so-called autonomous unions who stand outside the three main confederations and have a longer history, dating in many cases from the 1960s. With an aggregate membership of around two million, their real strength, like Cobas, is in the public sector, but much more extensively in areas ranging from the hospitals to airlines, from banks to schools.

While the confederations, the CGIL (communist-socialist), the CISL (catholic workers with historic links to the Christian Democrats) and the UIL (socialist white-collar), know they have to work alongside the autonomous unions in a state of rivalry, they are much less certain in their handling of the Cobas phenomenon.

"We are too bureaucratic,and our internal democracy is too weak," says a candid Mr Walter Galbusera, a senior official from UIL. He sees the confederations' current problems in terms of a still unresolved battle between the traditional view of a trade union as dedicated to struggle in defence of working class interests and a more modern approach which believes the unions to be a responsible element in the management of the post-industrial technological society.

The latter path is the one gradually being chosen by union movements all over Western Europe. In Italy it involves many contradictions and is arguably a source of weakness because the confederations have not equipped themselves for the journey. Thus, they are under fire from their traditional wings for selling out the industrial workers' interests by co-operating in the restructuring of traditional heavy industries.

They have accepted what Mr Galbusera calls "the logic of the market," without making any inroads among the more highly educated technological skill groups.

On paper, their total memberships are nearly as high as they have been at close to 9 million. In reality, membership rolls are being sustained by pensioners. Thus in 1986, the largest confederation, CGIL, counted 4.642 million members, the highest total ever. The 'active' list, however, had fallen to the lowest level since 1982 - 2.83 million, while the pensioners were at a record 1.778 million.

All of which partially reflects the steady decline of the smokestack industries.

Many present contradictions come together in the public services. Government employees are not subject to the logic of the market and expect a more traditional form of union leadership. When this is compromised, as it has been in the 1980s by tripartite agreements with government and employers over wages and by political defeat (over changes in the age indexation system), some of the rank and file tends to lose faith.

Although one is a Cobas, and the other the confederations' own rank and file dissidents, the public transport strikes by railway drivers and airport workers which have made travelling a nightmare this autumn, reflect this lack of confidence in union leadership.

The effect, however,has been to create a political demand for the legal regulation public sector strikes - an issue which threatens to be almost as internally divisive for the unions and as politically controversial for their relations with government as the battle three years ago over wage indexation.

Two of the confederations, the CGIL and the CISL, are firmly opposed to legislation and will only consider inserting disciplinary codes into public sector contracts. These would have some legal force but they would not apply to public companies such as the railways and the state airlines. The UIL is preparing to gather signatures in support of a law which would regulate strikes by both government employees and employees of public companies.

This approach acknowledges that there is a public interest to be protected which the unions can no longer guarantee. It does not seek to regulate industrial relations in the private sector. Quite how the issue will be resolved is unclear.

For all their apparent weaknesses the three confederations can still profit from the Italian obsession with consensus, which means that the politicians will be reluctant to legislate with the majority of the union movement against them.

John Wyles

Machine Tools

Sharp change in sales pattern

SO FAR, Italy has fared relatively well in the bitter struggle among the world's machine tool manufacturers to compensate for slower trade and narrowing margins, by offering more sophisticated technology aimed at enhancing production flexibility.

Italian machine tool makers claim a 5.6 per cent share of the total world market, and are thus placed number five in the world league behind Japan, West Germany, the Soviet Union and the United States.

They have succeeded in increasing their stake in the overall world market during a time of tightening competition, and the technological quality of Italian-made products is widely appreciated in every part of the world."

But the pattern of sales has been changing dramatically. The export component has been badly bruised by the triple blows of brisk competition from US dollar-denominated producers, slower global trade overall, and rising domestic costs.

Ucimu, a manufacturers trade association, recently issued the forecast that export sales this year will probably slip (in inflation-adjusted terms) by 2.6 per cent to some L1,450bn. This weaker development follows a stagnant performance in 1986, when a small one percentage point rise in exports was accompanied by a 28 per cent rise in imports.

The machine tool sectors' overall trade surplus fell as a result from L 976bn to L929bn last year. This year, Ucimu expects the industry's surplus figure will slip closer to L880bn. At the same time, profit margins are expected to further narrow on "still weak" world demand.

Among the most important export markets for Italy are West Germany, the US, France, and the Soviet Union, China and the UK.

On this basis, Ucimu's assesment of the industry's overall prospects this year is that total sales of Italian machine tools and flexible automation systems ought to advance by just one percentage point (to L2,422bn). This compares with the 6.7 per cent advance (in real terms) for 1986.

Thus, domestic demand is playing an increasingly important role in absorbing the industry's output. On this front, Ucimu sees a 5 per cent rise in real demand, accompanied by a slowdown in the growth of imports particularly from Japan.

This, at least, may be welcome news to producers who have seen the efficient Japanese driving steady inroads into their home markets.

The country's 400 machine tool producing companies are largely smaller and medium-sized operations.

Fiat's Comau subsidiary, on the other hand, has been able to build up an impressive position in the factory automation business. It is a prime supplier of assembly systems for the production of cylinder heads, to General Motors, for example. GM owns 20 per cent of Comau's US producing subsidiary.

Comau has also profited from its important technological cooperation pact with the large US computer manufacturer, Digital Equipment Corporation.

Meanwhile, at the 7th World Machine Tool and Automation fair held in Milan in October, George Megel, President of the European Committee for Cooperation between Machine Tool Industries, warned of the dangers inherent in protectionist trends.

"Perhaps recalling true or assumed implications of machine tools on 'national defence'," he ventured, "we certainly cannot ignore that recent cases of protectionism and disequilibrium represent a serious danger to the whole sector."

David Lane